

**MARKET STUDY WITH  
PROSPECTIVE FINANCIAL ANALYSIS**

**PROPOSED 1,500-ROOM  
HEADQUARTERS CONVENTION CENTER HOTEL**

**SAN ANTONIO, TEXAS**

**SEPTEMBER 2002**





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September 20, 2002

Mr. Trey Jacobson  
Manager, Economic Revitalization  
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City of San Antonio  
P.O. Box 839966  
San Antonio, Texas 78207

Dear Mr. Jacobson:

In accordance with our engagement letter dated June 19, 2002, we have completed our study of the potential market demand for the proposed headquarters convention center hotel of up to 1,500 rooms to be located on a site adjacent the Henry B. Gonzalez Convention Center in San Antonio, Texas. The conclusions reached are based upon our present knowledge of the competitive market resulting from our fieldwork completed July 22, 2002.

As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant change in the competitive position of the project from that as set forth in this report. The terms of our engagement are such that we have no obligation to revise this report to reflect events or conditions that occur subsequent to the date of the completion of our fieldwork. However, we are available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project.

Since the proposed headquarter convention center hotel's future performance is based on estimates and assumptions, which are subject to uncertainty and variation, we do not represent them as results that will actually be achieved.


This report is subject to the statement of assumptions and limiting conditions presented in the Addenda.

Mr. Trey Jacobson  
September 20, 2002  
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We would be pleased to hear from you if we may be of further assistance in the interpretation and application of our findings and conclusions. We express our appreciation to you and your associates for the cooperation extended to us during the course of this assignment.

Respectfully submitted,

PKF Consulting



John M. Keeling CPA CRE  
Senior Vice President

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**ADDENDA**

- A. Statement of Assumptions and Limiting Conditions
- B. Certification
- C. Photos of Primary Competitive Hotels

## I – EXECUTIVE SUMMARY



**CONCLUSION**

Based upon our research of the competitive lodging market, PKF Consulting has concluded that a 1,500-room full-service convention center headquarters hotel to be located adjacent the Henry B. Gonzalez Convention Center could be supported at the occupancies and rates stated herein. PKF estimates that the hotel will stabilize in the third year of operation (2009), reaching an occupancy level of 78% and an ADR of \$189.00 (\$154.00 expressed in 2002 constant dollars).

**DESCRIPTION OF PROJECT**

The City of San Antonio is pursuing the development of a full-service headquarters convention center hotel. The objective of this study was to evaluate the potential market demand and estimated financial performance related to the proposed 1,500-room full-service headquarters convention center hotel to be located adjacent the Henry B. Gonzalez Convention Center.

**AREA OVERVIEW**

The San Antonio economy was among the nation's leaders as it demonstrated significant growth during the 1990's and into 2001. The downturn in the national economy beginning in early 2001, together with the events of September 11, 2001, negatively impacted employment and performance in most economic sectors. Most observers believe that a recovery is underway, with the area economy expected to reach the former high levels of performance experienced in 2000 by 2004.

**SITE AND FACILITY ANALYSIS**

The subject hotel is to be located on the southwest corner of Market and Bowie streets in the downtown River Walk district of San Antonio, a major convention/group and tourist/leisure development. It will be central to area amenities such as the Rivercenter Mall, the IMAX Theater and the Tower of the Americas. It is also to be adjacent to the Henry B. Gonzalez Convention Center. Access, visibility and proximity to demand generators are excellent.

The 1,500-room hotel is assumed to be chain-affiliated with a brand that has a strong reputation in the convention/group and meetings market. It will contain approximately 120,000 total square feet of meeting space, restaurant, lounge, outdoor pool, fitness center, sundries shop, and business center. Its location, and facility offer competitive advantages within the area lodging market.

## San Antonio Hotel Market

## San Antonio Central Business District Market

## Primary Competition

- Adam's Mark;
- Hilton Palacio del Rio;
- Hyatt Regency;
- Marriott Rivercenter;
- Marriott River Walk; and
- Westin River Walk.

Estimated Historic Market Performance Primary Competitive Set - San Antonio - CBD								
Year	Available Rooms	Change	Market Occ.% <sup>1</sup>	Occupied Rooms <sup>2</sup>	Change	ADR	Change	RevPAR <sup>3</sup>
1997	1,016,890	---	80%	809,600	---	\$136.60	---	\$108.76
1998	1,103,760	8.5%	79%	870,000	7.5%	\$142.02	4.0%	\$111.95
1999	1,132,960	2.6%	77%	875,600	0.6%	\$143.63	1.1%	\$111.00
2000	1,276,405	12.7%	77%	981,700	12.1%	\$145.19	1.1%	\$111.66
2001	1,276,405	0.0%	74%	943,000	-3.9%	\$147.80	1.8%	\$109.20
CAC <sup>4</sup>	5.8%	---	---	3.9%	---	2.0%	---	0.1%

1 Rounded to the nearest whole percent  
 2 Rounded to the nearest hundred  
 3 RevPAR = Occ. x ADR, using non-rounded numbers  
 4 Compound Annual Change

Source: PKF Consulting



The primary competitive set has seen occupancy dip slightly from a high of 80% in 1997 to a low of 74% in 2001. The low occupancy in 2001 can be attributed to the expansion of the convention center, the aftereffects of September 11 and the downward turn in the economy in general. Due to the consistent nature of the group and convention demand segment in San Antonio and its domination of the primary competitive set, these properties have been able to sustain very high levels of occupancy.

The following chart indicates the overall market mix for the primary competitive set in 2001. The convention/group segment is the largest at 72%, followed closely by the tourist/leisure segment at 18% of the total market demand.

<b>2001 Estimated Market Mix Primary Competitive Set</b>		
	<b>Total Demand<sup>1</sup></b>	<b>% of Total</b>
Convention/Group	675,300	72%
Tourist/Leisure	173,400	18%
Individual Business Traveler (IBT)	94,300	10%
<b>Total</b>	<b>943,000</b>	<b>100%</b>
<sup>1</sup> Rounded to the nearest hundred		

### Secondary Competition

PKF has identified 11 hotels located in or near downtown San Antonio and along the River Walk that will compete with the subject hotel for certain segments of demand such as tourist/leisure and IBT demand. The secondary competitive supply is as follows:

- Crockett Holiday Inn;
- Drury Inn & Suites;
- Emily Morgan Hotel;
- Four Points Sheraton River Walk;
- Sheraton Gunter Hotel;
- Holiday Inn River Walk;
- Homewood Suites River Walk;
- La Mansion del Rio;
- The Menger Hotel;
- Plaza San Antonio, A Marriott Hotel; and
- The St. Anthony, A Wyndham Historic Hotel.

The following chart highlights the historic levels of supply, demand, occupancies and ADR's for the secondary competitive set.



Estimated Historic Market Performance Secondary Competitive Set - San Antonio								
Year	Available Rooms	Change	Market Occ.% <sup>1</sup>	Occupied Rooms <sup>2</sup>	Change	ADR	Change	RevPAR <sup>3</sup>
1997	1,002,290	---	66%	664,900	---	\$107.94	---	\$71.60
1998	1,002,290	0.0%	70%	705,400	6.1%	\$110.68	2.5%	\$77.88
1999	1,047,915	4.6%	69%	727,300	3.1%	\$110.61	-0.1%	\$76.77
2000	1,057,040	0.9%	71%	754,800	3.8%	\$113.83	2.9%	\$81.29
2001	1,057,040	0.0%	68%	721,000	-4.5%	\$116.62	2.4%	\$79.54
CAC <sup>4</sup>	1.3%	---	---	2.0%	---	2.0%	---	2.7%
1 Rounded to the nearest whole percent			3 RevPAR = Occ. x ADR, using non-rounded numbers					
2 Rounded to the nearest hundred			4 Compound Annual Change					
Source: PKF Consulting								

These properties compete for tourist/leisure demand, IBT demand and for small groups such as SMERF and association business who require smaller amounts of meeting space and guestrooms. Due to the increase in room supply, the occupancy fell to 69% in 1999, from its high of 70% in 1998. Occupancy for 2001 fell three points due primarily to the secondary set's heavy reliance on group business and tourist/leisure business, which were adversely affected by the aftermath of September 11, 2001.

As shown in the following chart, group demand accounts for the largest source of demand among the secondary competitive set. However, the secondary competitive set captures approximately 65,000 more room nights of tourist/leisure demand and 10,000 more room nights of IBT demand than the primary competitive set.

2001 Estimated Market Mix Secondary Competitive Set		
	Total Demand <sup>1</sup>	% of Total
Convention/Group	380,400	53%
Tourist/Leisure	236,700	33%
Individual Business Traveler (IBT)	103,900	14%
Total	721,000	100%
<sup>1</sup> Rounded to the nearest hundred		

### New Supply

There are a number of properties that are being considered for development or are under development in relevant surrounding areas. PKF is aware of four likely new additions to be added to the competitive supply. These supply additions will significantly increase the capture of lodging demand in the subject marketplace.

New Competitive Supply Additions		
Hotel	Rooms	Date Open
Hotel Valencia	214	2002/2003
Watermark Hotel	96	2003/2004
Proposed All-Suite Hotel	268	January 2004
Proposed Hotel (Bank One Building)	300	January 2006
Total	878	--
Source: PKF Consulting		

Only the aforementioned hotels have been considered in the quantitative market analysis. All other proposed properties are considered either too speculative or not competitive due to their facilities and market appeal. Should any comparable lodging facility with a similar facility offering, market orientation or price/value relationships enter the competitive lodging market, the estimated future utilization of the competitive hotels could be adversely affected.

### Future Market Performance

The following chart presents the estimated market supply, demand, and occupancies for the combined primary and secondary competitive supply in the 2002 through 2009 period.

Estimated Future Market Supply and Demand								
Year	Occupied Room Nights <sup>1</sup>					Available Room Nights		Est. Market Occ. <sup>2</sup>
	Convention/Group	Tourist/Leisure	IBT	Total	%Change	Total	%Change	
2002	1,114,300	410,300	198,400	1,723,000	-	2,353,133	-	73%
2003	1,140,200	413,500	202,400	1,756,100	1.9%	2,411,555	2.5%	73%
2004	1,214,800	426,600	209,100	1,850,500	5.4%	2,544,415	5.5%	73%
2005	1,285,600	430,900	211,200	1,927,700	4.2%	2,544,415	0.0%	76%
2006	1,361,900	443,400	216,600	2,021,900	4.9%	2,653,915	4.3%	76%
2007	1,646,600	530,000	246,200	2,422,800	30.9%	3,201,415	20.6%	76%
2008	1,663,000	535,300	248,600	2,446,900	26.9%	3,201,415	0.0%	76%
2009	1,679,700	540,600	251,100	2,471,400	22.2%	3,201,415	0.0%	77%
CAC <sup>3</sup>	6.0%	4.0%	3.4%	5.3%	-	4.5%	-	-
<sup>1</sup> Rounded to the nearest hundred								
<sup>2</sup> Rounded to the nearest whole percent								
<sup>3</sup> Compound Annual Change								

The forgoing estimates of future market supply and demand assume that no major terrorist incidents occur that have a material adverse impact on travel to the subject market.

The competitive market is expected to demonstrate significant growth in both supply and demand over the projection period. We believe that by 2008 the market will have absorbed the new additions to supply, including the subject property, and demand will return to the previous high levels achieved in 2000.

### ESTIMATED SUBJECT HOTEL OCCUPANCY AND ADR

The historic penetration rates of the competitive hotels were analyzed and used in determining the future penetration potential of the proposed hotel. Historical composite market penetration rates for the primary competitive set has ranged from 81.9% to 114.3% over the 1997 – 2001 period. The convention/group segment is strong for the primary set with many properties well above 100% penetration. Overall, four of the six properties in the primary competitive set are achieving 100% or more of their fair market share. We have estimated that the subject property will achieve 140% of its fair market share in the convention/group segment, 50% of its fair market share in the tourist/leisure segment, and 80% of its fair market share in the IBT segment. This results in overall

market penetration of 101% of fair market share for the subject property. The resulting achievable occupancies for the subject hotel are:

<b>Estimated Occupancy Proposed 1,500-Room Convention Center Hotel</b>		
<b>Year</b>	<b>Occupied Rooms</b>	<b>Occupancy</b>
2007	416,900	76%
2008	421,100	77%
2009	425,100	78%

In 2001, the aggregate ADR for the primary competitive set was \$147.80. The subject hotel will compete most directly with the primary competitive set, and more specifically, the mid to upper end of the primary competitive rate tier. Based on this, PKF has estimated future room rates for the subject hotel as follows:

<b>Estimated ADR Proposed 450-Room Renaissance Hotel</b>		
<b>Year</b>	<b>Constant 2002 Dollars</b>	<b>Stated-Year Dollars*</b>
2007	\$154.00	\$179.00
2008	\$154.00	\$184.00
2009	\$154.00	\$189.00
Rounded to the nearest dollar		

## ESTIMATED ROOM REVENUES

We have estimated room revenues based on the occupancy and rate projections stated above. The following table presents our estimates of ADR, occupancy and rooms department revenues from January 1, 2007 through stabilization, presented in inflated dollars.

<b>Estimated Rooms Revenue</b>			
<b>Year</b>	<b>Average Daily Rate</b>	<b>Annual Occupancy</b>	<b>Rooms Revenue</b>
2007	\$179.00	73.0%	\$71,543,000
2008	\$184.00	76.0%	\$76,562,000
2009	\$189.00	78.0%	\$80,712,000

## ESTIMATED OPERATING RESULTS

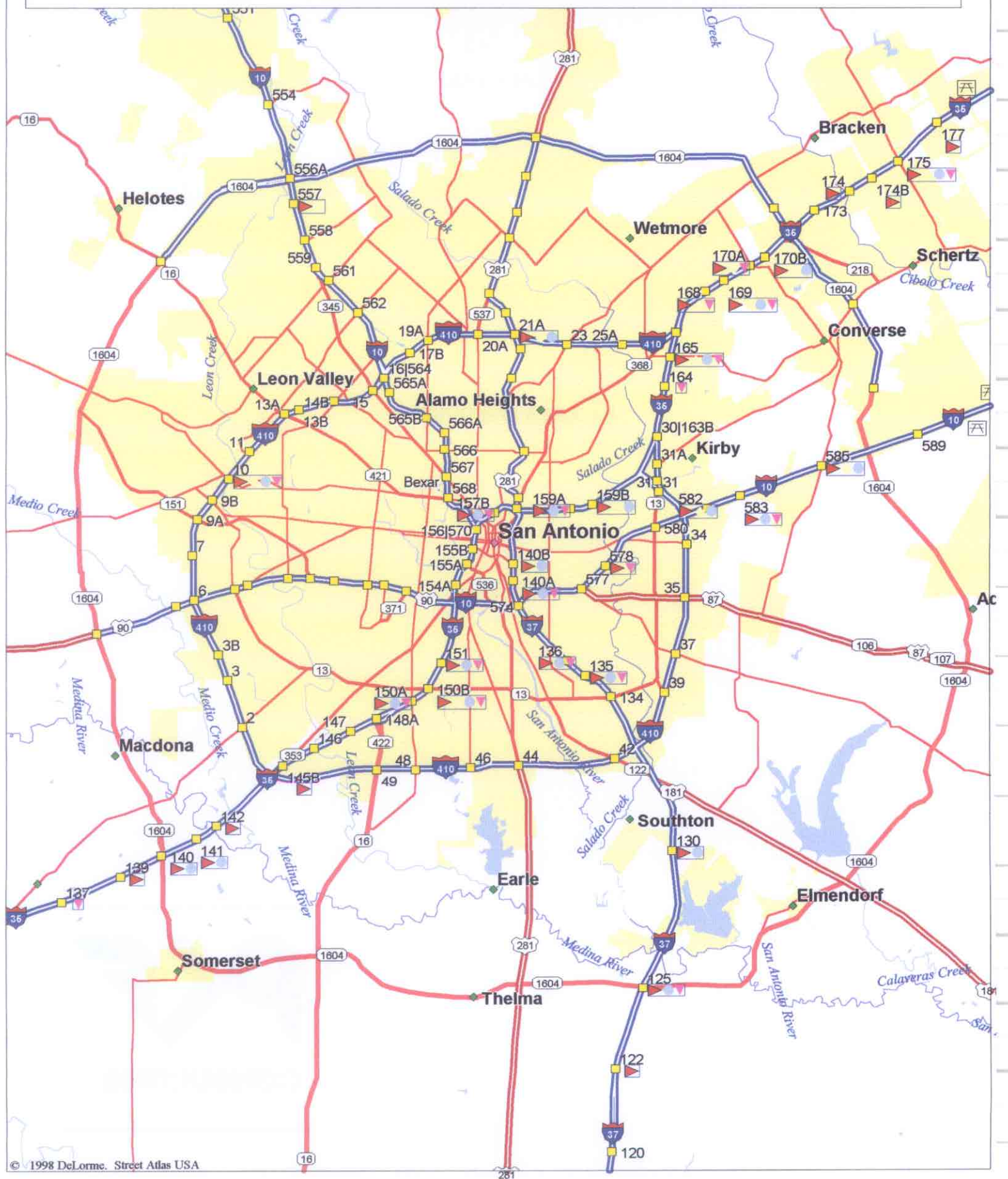
In estimating the future operating results, PKF analyzed the historic operating statements for five comparable full-service convention center properties. The detailed financial statements are presented at the end of this report.



## II – AREA OVERVIEW



# Area Overview





**INTRODUCTION**

San Antonio is located in south central Texas, 199 miles west of Houston, 282 miles south of Dallas/Fort Worth and 80 miles south of Austin. The San Antonio Metropolitan Statistical Area includes Bexar, Comal, Guadalupe and Wilson counties.

**The National Economy**

On September 11, 2001, the United States experienced major terrorist attacks on the World Trade Center in New York City and the Pentagon in Washington, D.C. These attacks were perpetrated by hijacked airliners and all flights over the U.S. were grounded for nearly a week. In the weeks following, the public demonstrated an immediate reluctance to fly. Consequently, there were major airline layoffs and reductions of scheduled flights. Although the public's reluctance to fly has waned, heightened security measures nationwide have caused longer check-in periods at the airports and increased the cost of doing business.

Additionally, on November 26, 2001, the National Bureau of Economic Research made the announcement that the national economy had officially entered into a recession. The recession began in March 2001 and the consensus opinion is that it should end in 2002. The Bureau is unclear about how strong the rebound will be once the recession ends and how much of the 1990s boom will survive this recession and the pressures of the war on terrorism.

It is anticipated that the most severe impacts of these events will be of short duration. While definitive near term projections are difficult to make, longer term (beyond 2002) prospects are positive. Barring additional dramatic domestic terrorist attacks in the United States, PKF believes the hotel industry will be able to substantially recover from these events by 2003/2004.

**ANALYSIS OF ECONOMIC INDICATORS**

The economic data and growth projections set forth in this report are based upon data compiled from profiles and reports published by various city government agencies and private companies. Our analysis of select economic indicators and other developments in the market are summarized in the following paragraphs and tables.

### Population

The population of San Antonio is nationally ranked in the top ten among the major metropolitan areas in the country. San Antonio's current population is 1.4 million.

Total Population (Thousands)						CAC <sup>1</sup>	CAC <sup>1</sup>	CAC <sup>1</sup>
	1990	1995	2001	2002	2005	1990-95	1995-01	2002-05
San Antonio	1,188	1,291	1,420	1,441	1,506	1.69%	1.59%	1.47%
Bexar County	1,327	1,455	1,618	1,644	1,722	1.86%	1.78%	1.55%
State of Texas	17,045	18,694	20,612	20,887	21,710	1.86%	1.64%	1.30%
Southwest Region	25,391	27,956	30,821	30,821	32,507	1.94%	1.64%	1.33%
United States	249,441	262,764	277,501	279,785	286,609	1.05%	0.91%	0.81%
<sup>1</sup> Compound annual change								
Source: Woods and Poole Economic and Demographic Data								

Over the past decade, San Antonio reported the largest rate of population growth compared to Bexar County, the State of Texas, the Southwest Region and the United States. Future growth projections for San Antonio and Bexar County are expected to slow from the 1990-1995 period, but are still estimated to outpace projections for the state, the Southwest Region and the United States.

### Mean Household Income

Mean household income averaged \$59,592 for San Antonio in 2001, which was \$1,500 ahead of the Southwest Region average, but \$4,500 lower than the national average of \$64,110 for 2001. Household income grew at an annual average rate of 1.93% from 1995 - 2001 in San Antonio, a rate slightly below the national, regional and state average. Future growth projections for San Antonio estimate a reduced rate of growth largely due to current economic conditions.

Mean Household Income*						CAC <sup>1</sup>	CAC <sup>1</sup>	CAC <sup>1</sup>
	1990	1995	2001	2002	2005	1990-95	1995-01	2002-05
San Antonio	\$48,356	\$53,138	\$59,592	\$60,120	\$61,958	1.90%	1.93%	0.96%
Bexar County	\$48,576	\$53,576	\$60,304	\$60,953	\$62,781	1.98%	1.99%	0.99%
State of Texas	\$51,009	\$53,907	\$61,155	\$61,799	\$63,629	1.11%	2.12%	0.98%
Southwest Region	\$48,846	\$51,387	\$58,076	\$58,707	\$60,513	1.02%	2.06%	1.02%
United States	\$54,546	\$56,650	\$64,110	\$64,834	\$66,880	0.76%	2.08%	1.04%
<sup>1</sup> Compound annual change								
*real dollars adjusted to 1992								
Source: Woods and Poole Economic and Demographic Data								

### Eating and Drinking Places

Eating and drinking places offer an indication of an area's level of disposable income and the propensity to spend. Overall, San Antonio performed slightly above the state of Texas, the Southwest Region and the United States levels with a CAC of 3.29% from 1995 to 2001. These levels are expected to decrease slightly within the next three years, but are projected to outperform the State of Texas, the Southwest Region and the United States.



Eating and Drinking Place Sales (Millions)								
	1990	1995	2001	2002	2005	CAC <sup>1</sup> 1990-95	CAC <sup>1</sup> 1995-01	CAC <sup>1</sup> 2002-05
San Antonio	\$1,113	\$1,289	\$1,565	\$1,619	\$1,778	2.99%	3.29%	3.19%
Bexar County	\$1,192	\$1,397	\$1,710	\$1,770	\$1,949	3.21%	3.44%	3.26%
State of Texas	\$13,349	\$15,702	\$18,991	\$19,587	\$21,371	3.30%	3.22%	2.95%
Southwest Region	\$19,729	\$23,239	\$28,188	\$29,086	\$31,780	3.33%	3.27%	3.00%
United States	\$199,350	\$222,195	\$257,576	\$264,364	\$284,410	2.19%	2.49%	2.47%
<sup>1</sup> Compound annual change								
Source: Woods and Poole Economic and Demographic Data								

### Retail Sales

The growth in retail sales in San Antonio has remained slightly below the rest of the areas from 1995 – 2001. The rate is expected to decrease slightly to 2.47% within the next three years due to the slowdown in the economy but is projected to outperform the state, region and nation's retail sales.

Total Retail Sales (Millions)								
	1990	1995	2001	2002	2005	CAC <sup>1</sup> 1990-95	CAC <sup>1</sup> 1995-01	CAC <sup>1</sup> 2002-05
San Antonio	\$8,805	\$10,310	\$12,579	\$12,909	\$13,891	3.21%	3.37%	2.47%
Bexar County	\$9,637	\$11,374	\$14,019	\$14,399	\$15,529	3.37%	3.55%	2.55%
State of Texas	\$128,452	\$151,431	\$185,100	\$189,556	\$202,742	3.35%	3.40%	2.27%
Southwest Region	\$189,373	\$223,647	\$274,134	\$280,866	\$300,812	3.38%	3.45%	2.31%
United States	\$1,925,983	\$2,137,661	\$2,507,154	\$2,554,903	\$2,694,391	2.11%	2.69%	1.79%
<sup>1</sup> Compound annual change								
Source: Woods and Poole Economic and Demographic Data								

### EMPLOYMENT

San Antonio's 4.4% unemployment rate appears quite healthy when compared to the State of Texas and the United States unemployment rates of 4.9% and 4.8% respectively. The following table highlights the year-end 2001 unemployment rate for San Antonio, Bexar County, the State of Texas and the United States.

2001 Civilian Labor Force Estimates				
	San Antonio	Bexar County	Texas	Nation
Civilian Labor Force	540,976	687,547	10,462,712	141,815,000
Number of Employed	517,065	659,580	9,955,270	135,073,000
Number of Unemployed	23,911	27,967	507,442	6,742,000
Unemployment Rate	4.4%	4.1%	4.9%	4.8%
Source: Texas Workforce Commission				

The unemployment rate for San Antonio for the month of June 2002 is 6.3%, up from 5.1% for June 2001. The increase in unemployment is a result of significant economic downturns in the national economy in general and specifically the local economy, resulting in reduced consumer spending in an area heavily dependent on tourism. However, San Antonio's unemployment rate for June 2002 is lower than the Texas average of 6.8% but higher than the national average of 6.0%.

The following table highlights the distribution of employment in the San Antonio MSA, along with categorical growth rates.

Distribution of Non-Agricultural Employment Annual Average								
Major Industry	1990	1995	2001	2002	2005	CAC <sup>1</sup> 1990-95	CAC <sup>1</sup> 1995-01	CAC <sup>1</sup> 2001-05
Mining	7,348	6,445	5,616	5,702	5,953	-2.59%	-2.27%	1.47%
Contract Construction	32,329	46,368	61,028	62,372	66,434	7.48%	4.69%	2.14%
Manufacturing	47,567	52,361	53,537	53,487	53,398	1.94%	0.37%	-0.06%
Transportation/Communications/Public Utilities	25,918	33,830	41,726	42,589	45,178	5.47%	3.56%	2.01%
Wholesale/Retail Trade	150,545	180,107	208,470	212,758	225,069	3.65%	2.47%	1.93%
Finance/Insurance/Real Estate	60,861	69,820	84,845	86,229	90,149	2.78%	3.30%	1.53%
Service	199,084	244,749	319,279	327,276	349,130	4.22%	4.53%	2.26%
Government	160,663	169,316	178,620	181,148	189,073	1.05%	0.90%	1.43%
Total	684,315	802,996	953,121	971,561	1,024,384	3.25%	2.90%	1.82%
<sup>1</sup> Compound Annual Change								
Source: Texas Workforce Commission								

As illustrated, the fastest-growing employment sector during the 1995 through 2001 period was contract construction, which grew at a compounded annual rate of 4.69%. Further, the service sector which includes the hospitality industry, demonstrated a strong compound annual growth rate of 4.53%, which was slightly higher than the 4.22% CAC achieved during the 1990 – 1995 period. The following table lists the top 10 major employers in the San Antonio area.

Largest Private Employers San Antonio MSA		
Employer	Product/Service	Employees
United Service Automobile Association	Insurance	17,008
SBC Communications Inc.	Telecommunications	7,519
Baptist Health System	Healthcare	4,850
Methodist Healthcare System	Healthcare	4,725
Six Flags Fiesta Texas	Theme Park	3,000
Christus Santa Rosa Health Care	Healthcare	2,619
SeaWorld San Antonio	Theme Park	2,490
Southwest Research Institute	Research	2,448
San Antonio Marriott Lodging	DND	2,243
B.J. Tidwell Industries	Manufacturer	2,053
Source: San Antonio Business Journal, Book of Lists 2002		

## TRANSPORTATION

### Highways

There are 912 miles of freeway and state highways in Bexar County. The City of San Antonio is encircled by Loop 410 and Loop 1604. Major highways bisecting San Antonio include Interstate 10 (I-10), which connects Houston to the east and El Paso to the west. Interstate 35 (I-35) connects Austin and the Dallas/Fort Worth area to the north and Laredo to the southwest. Interstate 37 (I-37) connects San Antonio to Corpus



Christi to the southeast. State highways 90, 281, 181 and 87 connect the city to Del Rio, McAllen/the hill country, Kennedy and Victoria. Interstate 37 (I-37), which connects with State Highway 281, connects the downtown area of San Antonio with the airport.

San Antonio is currently undergoing roadway improvements at a cost of \$483 million. The construction, which began in 2000, is expected to be complete by 2005. Substantial changes are being made at the interchanges of I-10 and Loop 410 and at US 281 and Loop 410. The Texas Department of Transportation estimates that by the year 2015, 74,000 additional vehicles will travel the Loop 410 corridor each day. They are siting the extensive construction as a "price of prosperity" due to this growth. The goal of the construction is to increase mobility and travel times, improve air quality and fuel efficiency, and provide easier access to businesses in the San Antonio area.

### Air

San Antonio International Airport offers air service to all 50 states with 14 domestic and international air carriers in two terminals. The San Antonio airport provides non-stop service to 31 destinations, including Cancun and Cozumel. The following table presents airport activity at the San Antonio International Airport from 1997 through 2001.

<b>San Antonio International Airport Activity</b>		
<b>Boarded</b>		
<b>Year</b>	<b>Passengers</b>	<b>% Change</b>
1997	3,484,141	--
1998	3,505,372	0.6%
1999	3,538,243	0.9%
2000	3,647,094	3.1%
2001	3,443,434	-5.6%
<b>CAC<sup>1</sup></b>	<b>-0.3%</b>	<b>--</b>
<sup>1</sup> Compound Annual Change		
Source: San Antonio Aviation Department		

Airline traffic is pretty consistent for the San Antonio International Airport, averaging over 3.5 million passengers over the 1997 – 2001 period. From 1998 through 2000, passenger counts increased, however in 2001, passenger counts decreased to the 1997 levels. The decrease is largely attributed to the after effects of September 11 and passenger counts are anticipated to return to the 2000 levels by 2003.

### OFFICE MARKET

The following table highlights the San Antonio office market for the Second Quarter 2002.



San Antonio Office Market Second Quarter 2002				
Submarket	Number of Buildings	Office NRA <sup>1</sup>	Vacancy Square Feet	Vacancy Rate
CBD	42	5,047,012	804,724	15.94%
North Central	107	8,409,649	1,184,105	14.08%
Northwest	75	7,125,018	1,116,060	15.66%
Northeast	21	1,334,979	197,841	14.82%
South	3	212,119	40,913	19.29%
City Wide	248	22,128,777	3,343,643	15.11%
<sup>1</sup> Net Rentable Area				
Source: CB Richard Ellis				

According to CB Richard Ellis, the citywide vacancy rate increased almost one percentage point from 14.34% in first quarter of 2002 to 15.11% in the second quarter of 2002. All markets with the exception of the CBD and the South market have experienced a slight increase in vacancy rates compared to the first quarter of 2002. The CBD and South markets decreased less than one percentage point and 2.75 percentage points, respectively.

## TOURISM

Visitor statistics and trends for the City of San Antonio, as reported by the San Antonio Convention and Visitors Bureau, the Tourism Division of the Texas Department of Commerce, and the State Department of Highways and Public Transportation are summarized as follows:

- The San Antonio Convention and Visitors Bureau spends over \$10 million annually on tourism.
- The Alamo, River Walk, El Mercado, missions and theme parks continue to rank as top attractions in the state for visitors to Texas.
- The leisure visitor market accounts for almost 60% of total visitors, of which 49% of these visitors are from Texas.
- 71% of the overnights to San Antonio stay in hotels/motels, while 17% stay with friends/family and 13% in other accommodations.
- 98% of visitors surveyed said they would return to San Antonio for another visit.
- The tourist and convention industry is the second largest industry in San Antonio. Annually, the city hosts an estimated seven million visitors whose total travel expenditures exceed \$1.5 billion. The total economic impact

(both direct and indirect) of the industry is estimated at nearly \$3.2 billion and accounts for 56,000 jobs.

### **Tourist Attractions**

#### **River Walk**

The River Walk, also known as the Paseo Del Rio, was developed in the 1930's after concerns were raised regarding flooding along the San Antonio River. In 1929 architect Robert H. Hugman presented his plans to the mayor, city commissioners, property owners and civic leaders. Hugman's vision for a method to control floods while serving as a commercial and recreational center did not become reality until 1939. The project was completed in 1941 with an addition added in 1945. Over the next several years commercial development in the area was slow until \$30 million funding was issued in 1964 in efforts to improve and develop the River Walk.

In 1968 the second major extension was completed just before the opening of San Antonio's World Exposition, HemisFair. HemisFair served as the unveiling of the River Walk. In 1971, the Army Corps of Engineers completed river improvements from Alamo to Johnson Street.

Currently the Paseo del Rio Association serves to promote and maintain the River Walk by sponsoring events and publishing the monthly magazine, *Rio*.

The River Walk is one of the largest tourist attractions in Texas, famous for its outdoor shopping and dining. Following are some of the main points located along the River Walk.

#### **Hotels**

- Adam's Mark
- Amerisuites
- Drury Inn & Suites
- Emily Morgan Hotel
- Four Points River Walk
- Hilton Palacio del Rio
- Holiday Inn
- Homewood Suites
- Howard Johnson
- Hyatt
- La Mansion del Rio
- Riverwalk Inn
- Westin River Walk

**Retail**

- Rivercenter Mall – opened in 1988, includes shopping and restaurants. The anchor department stores are Dillard's and Foley's, also has many national retail chain stores and souvenir shops.
- La Villita – also known as Little San Antonio, the city's original settlement, has been restored and now showcases a unique arts and crafts community. It consists of 26 shops, filled with working artists, boutiques and galleries.

**Food and Beverage Establishments**

The River Walk includes over 50 restaurants, with a wide variety of cuisine. Most restaurants offer outdoor dining in order to capture the atmosphere of the River Walk. Following are some of the main restaurants located along the River Walk:

- Casa Rio (first restaurant of the River Walk, built in 1946)
- County Line Barbecue
- Fat Tuesday
- Fig Tree Restaurant
- Hard Rock Café
- Lone Star Café
- Paesano's Riverwalk (Italian)
- Rivercenter Comedy Club
- Boudro's on the Riverwalk
- Biga on the Banks Restaurant
- Ibiza Restaurant
- Republic of Texas
- Starbucks
- The Landing

**Entertainment**

- Arneson River Theater – named for the River Walk's original engineer, an outdoor theater used for music and dancing performances and other activities.
- IMAX Theater – located within the Rivercenter Mall.
- Rivercenter Comedy Club
- Yanaguana Cruises – cruises along the river, boats operate daily from 10am to 9pm, departing from various locations about every 15 minutes. Dinner cruises are also available.

**Other Downtown Attractions**

**HemisFair Park** – Located in downtown San Antonio, HemisFair Park consists of a number of permanent buildings from the 1968 World's Fair including Tower of the



Americas and University of Texas Institute of Texan Culture, a museum documenting the ethnic groups that built Texas.

**Historic Missions** – San Antonio is home of one of the best collections of historic Spanish missions in the country. Many of these missions are in and near the downtown area. They include: The Alamo (1718), scene of the famous battle in 1836; Mission Concepcion (1731); Mission San Jose (1720); Mission San Juan Capistrano (1731); and Mission San Francisco de la Espada (1741).

**Seaworld and Fiesta Texas** – These unique entertainment parks located in separate suburban areas of the city are major visitor attractions. Both are easily accessible by car to downtown San Antonio hotels.

**Other Attractions** - There are many more attractions in San Antonio. A few that can be found in or near the downtown area include El Mercado, the old marketplace with a touch of Mexico; Sunken Gardens, the lushness of a Japanese garden preserved in a natural setting; the San Antonio Zoo, one of the best in the nation near Brackenridge Park; the San Antonio Botanical Garden and Conservatory, a 33-acre living museum of plant life; the new Central Library, designed by famous Mexican architect Ricardo Legoreta; the Alamodome, an indoor multi-use sports arena; The SBC Arena, scheduled to open in November 2002, future home of the Spurs - an NBA professional basketball team; and the Buckhorn Museum and Saloon.

## **CONCLUSION**

San Antonio has experienced significant growth in population, employment and residential and commercial uses during the 1990s and into the 2000s. The San Antonio MSA will continue to attract tourists and leisure travelers because of continuous development, renovation and aesthetic improvement. Excellent transportation allows visitors to access San Antonio easily by ground or air. Based on the historical trend, it appears that future growth in the city will remain healthy.

### III – OVERVIEW OF NATIONAL MEETINGS MARKET





## INTRODUCTION

The meetings market covers a broad range of meeting and assembly events. In general, the industry can be defined as including all activities that provide entertainment or educational benefits to large audiences. The following list of event types combine to make the meetings market.

## EVENT TYPES

The four major types of events, i.e., those events where people meet for business, education, or pleasure, are as follows:

### Conventions

These are privately held meetings of professional groups and associations, which commonly occur in hotels or convention centers and are attended by association members and/or affiliations wishing to exchange ideas. A convention can consist of a single meeting or a number of meetings and often produces trade shows to merchandise products and services. Conventions are considered "high impact" events when attendees stay several nights in the host-city, generating increased hotel, restaurant, retail, and transportation revenues.

### Trade Shows

Trade shows are similar to conventions with exhibits but tend to be more exhibit-intensive in that they have fewer meetings, if any at all. As trade shows hold increasing numbers of concurrent meetings during the event, they are becoming less distinguishable from conventions. Compared to conventions, trade shows tend to attract greater numbers of attendees whose average stay is shorter. Convention and trade show markets are further distinguished by the fact that trade shows often attract more of their attendees from large metropolitan areas.

### Consumer Shows

These are sometimes referred to as public shows and are similar to trade shows, with the exception that the audience is the general public. Attendees are nearly always local residents and therefore have a smaller impact on the local economy than those attending trade shows. Examples of this type of show would include home and garden, boat, car, recreation vehicles, hunting, gun collector, craft, and antique shows.

### Civic Events

Civic Events relate to community or institutional activities such as graduations, family entertainment, circuses, sporting events, rodeos, and concerts. These events attract local residents almost exclusively.

PKF Consulting has gathered published research on the meetings industry in order to compare, evaluate, and analyze the characteristics and trends of conventions and trade shows over the last ten years. A primary source of data is information published by

trade journals and magazines representing or promoting the industry. Well-known industry publications include: *Meetings and Conventions* magazine, *Successful Meetings* magazine, the International Association of Assembly Managers *Industry Profile Survey*, and Tradeshow Week's, *Major Exhibit Hall Directory*.

Each of these publications track statistics for the industry and publish the data. *Meetings and Conventions* sponsor a survey of association executives and meeting planners (who are subscribers) on a biannual basis. This survey, entitled the *Meetings Market Report*, is well designed and professionally conducted, resulting in extensive statistical information on meetings and conventions. Similarly, *Successful Meetings* maintains a computer file of meeting planners referred to as the *SM/Databank*, which can be accessed for reliable statistical data. Tradeshow Week tracks the availability of, and demand for exhibit space.

## MARKET PROFILE

The *Meetings Market Report* conducted a survey in 2002 on the use of meeting facilities in 2001, the latest survey available. The meetings industry experienced an increase in the number of meetings and attendance in 2001 compared to 1999, while total expenditures decreased slightly over the same period.

Total Meetings Market					
	1997	1999	2001	Annual Growth Rate	
				4 Years	2 Years
Number of Meetings	984,700	1,021,500	1,033,600	1.2%	0.6%
Attendance	79,500,000	78,900,000	79,900,000	0.1%	0.6%
Total Expenditures	\$41,800,000,000	\$40,200,000,000	\$40,800,000,000	-0.6%	0.7%
Source: 2002 Meetings Market Report					

The *Meetings Market Report* subdivides the meetings market into three categories: corporate meetings, association meetings, and large conventions. These are all relevant to the subject facility. Corporate meetings dominate the market in terms of the number of meetings held and overall attendance, but over 75% of the expenditures generated in this industry come from associations and large conventions because these types of meetings require extensive travel and overnight accommodations.



2001 Meetings Market Summary						
	Meetings		Attendance		Expenditures	
	Total	% of Total	Total	% of Total	Total	% of Total
Corporate	844,100	81.7%	51,500,000	64.5%	10,300,000,000	25.2%
Association	177,700	17.2%	15,900,000	19.9%	13,900,000,000	34.1%
Convention	11,800	1.1%	12,500,000	15.6%	16,600,000,000	40.7%
Source: 2002 Meetings Market Report						

### Conventions

The convention sub-market has shown an increase in attendance over the 1997 through 2001 period. There has been a slight decline in expenditures, while the number of events has increased. It should be noted that the decrease in convention expenditures from 1997 to 2001 is partially attributable to the fact that 1997 was a record year for this category and that many conventions were canceled in late 2001 due to the aftereffects of September 11.

Conventions					
	1997	1999	2001	Annual Growth Rate	
				4 Years	2 Years
Number of Meetings	11,300	11,600	11,800	1.1%	0.9%
Attendance	11,700,000	12,300,000	12,500,000	1.7%	0.8%
Total Expenditures	\$16,700,000,000	\$16,300,000,000	\$16,577,000,000	-0.2%	0.8%
Source: 2002 Meetings Market Report					

From a convention center operator's perspective, conventions and trade shows are very similar. Tradeshows, as the name suggests, cater to specific trades by creating a format for vendors to sell to that trade or industry. Conventions are large meetings whose members discuss topics that affect their industry. The natural tendency is for conventions to have tradeshows. As such, even though the number of events and attendance is flat or declining, the number of exhibiting companies is increasing which translates into an increase in expenditures and an increase in the amount of exhibit space utilized for each event.

### Association Meetings

Association meetings experienced growth in the meetings and attendance categories in 2001, particularly in the two years from 1999 to 2001, when attendance increased by 1.0% annually.



Association Meetings					
	1997	1999	2001	Annual Growth Rate	
				4 Years	2 Years
Number of Meetings	189,500	174,200	177,700	-1.6%	1.0%
Attendance	17,900,000	15,600,000	15,900,000	-2.9%	1.0%
Total Expenditures	\$14,300,000,000	\$13,700,000,000	\$12,500,000,000	-3.3%	-4.5%
Source: 2002 Meetings Market Report					

According to *Meetings and Conventions* magazine, for the past 14 years, meeting expenditures have risen and fallen alternatively every two years, but the gains have exceeded the biennial dips. *Successful Meetings* magazine reports that the growth or decline in association meetings, is attributable to social, economic, or cultural changes, such as:

- Growth or decline in specialized conferences or the emergence of totally new associations;
- Technology and increased specialization in the professional societies; and
- Government legislation and changes in regulations.

Association meetings in 2001 had an average attendance of 91 people. The average length of time necessary to plan an association meeting was 16 months, but venues are often selected years in advance. The average duration of an association meeting was 2.2 days, the shortest being regional and local chapter meetings (1.8 days) and the longest being other off-premise meetings (2.6 days).

### Corporate Meetings

Corporate meetings are the highest-volume meeting types, increasing 1.9% from 1997 to 2001. Attendance also increased nearly 1% from 1997 to 2001, with total expenditures decreasing in 1999.

Corporate Meetings					
	1997	1999	2001	Annual Growth Rate	
				4 Years	2 Years
Number of Meetings	783,900	835,700	844,100	1.9%	0.5%
Attendance	49,900,000	51,000,000	51,500,000	0.8%	0.5%
Total Expenditures	\$10,800,000,000	\$10,200,000,000	\$10,345,000,000	-1.1%	0.7%
Source: 2002 Meetings Market Report					

Corporate meetings in 2001 had an average attendance of 78 people. The average duration of corporate meetings in 2001 was 2.7 days, this includes incentive trips, which are typically held at destination resorts and are for a longer period of four to seven days. Training seminars, professional/technical meetings, management meetings and sales meetings, which represent the meeting types that might consider the proposed facility, average about 2.5 days in duration. According to the *2001 Meetings Market Report*, facility types utilized for corporate functions varied, with the most popular being hotels, resorts, and conference centers. Approximately 74% of the meeting planners surveyed utilized downtown hotels, while 47% utilized convention centers in 2001.

## SEASONALITY

Having identified the type and size of meeting events, it is important to determine when they typically meet. The marked seasonality of the convention and exhibition industry has been thoroughly documented. According to the *Meetings Market Report*, fall and spring is the most popular time of year for association meetings. The least popular time of year is the winter and summer. The seasonal pattern stems from the avoidance of extreme weather or not wanting to conflict with vacation schedules.

## SAN ANTONIO, TEXAS

The City of San Antonio is pursuing the development of a convention center headquarters hotel to be located adjacent the Henry B. Gonzalez Convention Center within downtown San Antonio, Texas. Preliminary discussions for the proposed convention center hotel include 1,500-rooms and 120,000 square feet of total meeting space.

San Antonio as a destination will compete primarily with convention centers throughout the nation, region and state, and to a lesser extent, larger group-oriented hotels in the area as defined in the primary competitive set. A chart summarizing the competitive convention centers in the nation, region and state is located in section IV of this report.

**CONCLUSION**

While the rate of growth has slowed, the increase of meeting activity over the two-year period 1999 through 2001 is a positive sign for the meetings industry. Slight increases in expenditures and attendance suggests that companies and meeting planners are cost conscious, but are returning to previous levels achieved in the early to mid 1990s. Convention functions have grown slightly in volume, attendance, and expenditures from 1999 to 2001.



#### IV – OVERVIEW OF SAN ANTONIO CONVENTION FACILITIES



## INTRODUCTION

The City of San Antonio's primary convention facility is the Henry B. Gonzalez Convention Center. The center was constructed in 1968 as part of the world's fair, HemisFair. The original structure consisted of a banquet hall, an exhibit hall, meeting rooms, a theater, and an arena. Total meeting and exhibit space was approximately 159,600 square feet. In 1976, the Convention Center added over 67,400 square feet of function space. The second expansion took place between 1984 and 1986. Upon completion, the new Convention Center had over 377,000 square feet of meeting and exhibit space. In early 1995, the City of San Antonio approved a \$187 million expansion project of the Henry B. Gonzalez Convention Center, which increased the center to 1.3 million gross square feet of combined exhibit, meeting and ballroom space.

In addition to the Convention Center, the San Antonio Municipal Auditorium and the Alamodome are available for meetings and conventions. The San Antonio Municipal Auditorium was last renovated in 1985 and contains a 4,982-seat auditorium, two 2,000-square foot banquet rooms and six breakout rooms that can be combined and used as exhibit space. The Alamodome, a mixed-use sports arena, opened in May 1993. The Alamodome contains 72,000 seats and 160,000 square feet of floor space. It was home to the NBA basketball team, the San Antonio Spurs (who begin play in the new SBC arena), and has hosted several events such as the men's and women's NCAA Final Four Collegiate Basketball Tournaments. In 2005, the Alamodome will host the NCAA Women's Division I Volleyball Championships.

### **San Antonio Convention Center Demand**

According to the City of San Antonio, the number of conventions has grown from 1,128 in 1990 to 1,321 in 2000, a 1.6% annual increase. During the same period, convention attendance remained flat, decreasing slightly from 521,304 to 515,483. However, from 1990 through 2000 delegates have been spending on average over \$440 million in San Antonio annually.

Hotel demand generated by conventions corresponds to the number of conventions and the number of attendees at these conventions. In 1980, a total of 432,702 room nights were generated by citywide conventions. In 1986, when the second expansion was completed, convention room nights increased to 578,392. In 2000, convention room nights had increased to over 920,000 room nights.

The following chart illustrates San Antonio's convention center demand from 1981 to 2001.

San Antonio Convention Statistics						
Year	Attendance	% Change	Room Nights	% Change	Dollars Spent (millions)	% Change
1981*	320,299	--	512,479	--	N/A	--
1982*	331,963	3.6%	531,142	3.6%	N/A	--
1983*	372,110	12.0%	595,377	12.0%	N/A	--
1984*	384,251	3.3%	614,802	3.3%	N/A	--
1985*	374,778	-2.5%	599,645	-2.5%	N/A	--
1986*	361,495	-3.5%	578,392	-3.5%	N/A	--
1987*	333,790	-7.7%	534,065	-7.7%	N/A	--
1988	387,928	16.2%	685,320	28.3%	\$279.2	--
1989	443,910	14.4%	728,641	6.3%	\$319.2	14.3%
1990	521,304	17.4%	797,055	9.4%	\$375.2	17.5%
1991	536,701	2.6%	764,825	-4.0%	\$386.3	3.0%
1992	513,205	-4.4%	786,591	2.9%	\$369.4	-4.4%
1993**	576,720	12.4%	976,732	24.2%	\$472.2	27.8%
1994	488,979	-15.2%	947,753	-3.0%	\$400.4	-15.2%
1995	512,045	4.7%	982,045	3.6%	\$419.3	4.8%
1996	575,668	12.4%	959,543	-2.3%	\$471.4	12.4%
1997	571,950	-0.7	944,807	8.2	\$468.3	-0.7
1998	607,890	6.3%	1,038,472	9.9%	\$547.6	16.9%
1999	552,234	-9.2%	938,992	-9.6%	\$497.5	-9.1%
2000	515,483	-6.7%	921,495	-1.9%	\$464.4	6.7%
2001	524,743	1.8%	903,034	-2.0%	\$472.7	1.8%
<b>CAC</b>	<b>2%</b>	<b>--</b>	<b>3%</b>	<b>--</b>	<b>4%</b>	<b>--</b>
*Data prior to 1988 are estimates						
Change in research method beginning 1993 enabled the bureau to yield more accurate figures						
Source: San Antonio Convention and Visitors Bureau						

The following chart highlights the study of convention hotel demand during specific expansion periods of the Convention Center.

Years	Period	Convention Room Nights Hosted Annual Compounded Change
1969 to 2001	From Opening to present	4.7%
1977 to 2001	From first expansion to present	5.0%
1986 to 2001	From second expansion to present	2.5%
1997 to 2001	For the last five-year period	-2.1%
Source: San Antonio Convention and Visitors Bureau		

### Competitive Convention Centers

The second and third expansions of the Henry B. Gonzalez Convention Center have transformed San Antonio from a state and regional convention market to a nationally competitive destination city. The City of San Antonio primarily competes with Austin, Dallas and Houston on a state level, New Orleans on a regional level and San Diego, Las Vegas, and Orlando on a national level. Following is a brief description of each property.

#### Austin Convention Center

Since opening in 1992, the Austin Convention Center has hosted over 3 million people, attending approximately 1,500 events. The center has hosted 321 conventions, 167



public consumer shows, over 600 conferences, and 80 trade shows. The facility offers 131,000 total square feet of meeting space, and 70,000 square feet of column free exhibit hall space. The Austin Convention Center is a direct competitor to the Henry B. Gonzalez Convention Center due to its location.

#### **Dallas Convention Center**

The Dallas Convention Center, with more than 1.5 million square feet of space, is the largest convention center in Texas. It contains over 748,000 total square feet of exhibit space and 84,000 square feet of meeting space. The Dallas Convention Center attracts nearly four million delegates who contribute in excess of \$4 billion to the local economy while attending more than 3,600 conventions per year. Current expansion plans, scheduled to be completed by September 2002, will add an additional 203,000 square feet of exhibit space and 40,000 square feet of pre-function/reception space.

#### **Houston Convention Center**

The George R. Brown Convention Center contains 471,000 square feet of exhibit space. Currently, the center is being expanded on the north and south sides. The expansion, due for completion in late 2003, will add an additional 420,000 square feet of space to the center. The George R. Brown Convention Center attracts approximately 377,000 delegates attending more than 250 conventions per year. However, the City of Houston is constructing the 1,200-room Hilton Americas headquarters hotel adjacent to the convention center. The hotel is planned to open in late 2003, and should allow Houston to better compete in the convention game.

#### **New Orleans Convention Center**

New Orleans ranks as the nation's fifth-largest convention market due to its three convention facilities and abundance of lodging facilities. The largest convention facility in New Orleans is the Ernest N. Morial Convention Center located downtown in the Warehouse District. Since its opening, the center was expanded once and recently underwent its second expansion. The Phase III expansion of the Ernest N. Morial Convention Center began in 1995 and was completed in February 1999. The center now offers 1.1 million square feet of contiguous exhibit space, which is the second largest amount of contiguous exhibit space available in the United States. A Phase IV expansion is currently being planned for the Morial. While it is in the initial planning stages, it is expected that additional meeting space will be built to meet the special needs of medical and technology groups. In 2001, approximately 878,000 delegates attended over 280 conventions in New Orleans.

#### **San Diego Convention Center**

The San Diego Convention Center increased its size from 1,715,600 total square feet to 2,618,190 total square feet with an expansion in 2001. Included in the expansion is a 90,000 - square foot, column-free Sails Pavilion that will accommodate meetings, conventions, and even entertainment groups. In 2001, the San Diego Convention Center attracted over 755,000 delegates who contributed in excess of \$522.5 million to the local economy while attending more than 170 events.

### Las Vegas Convention Center

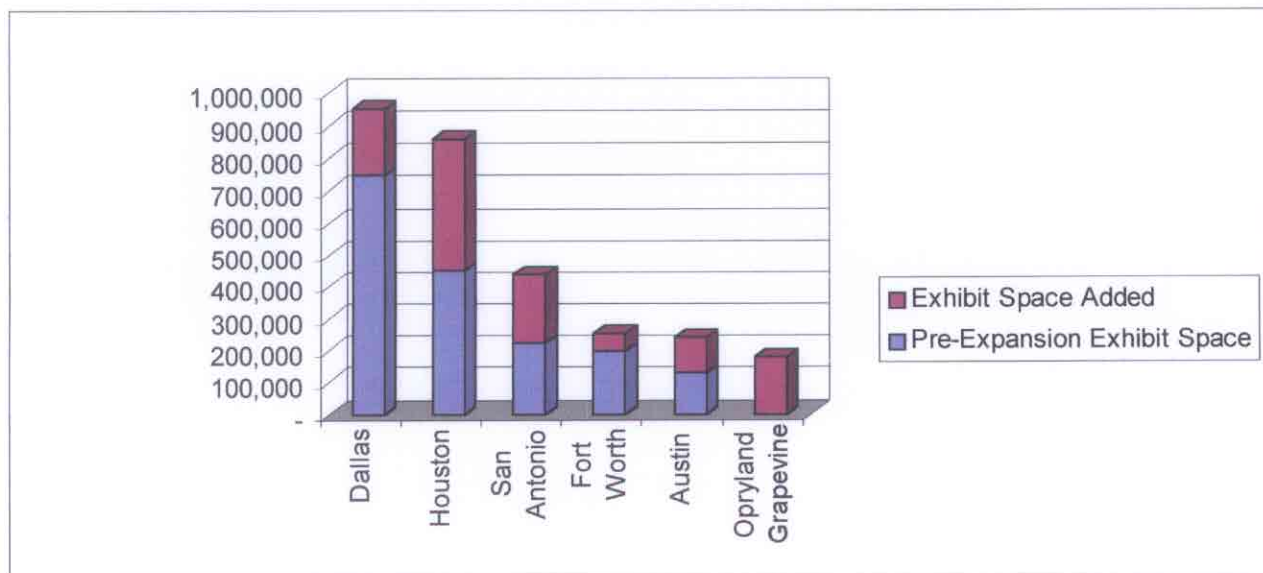
The Las Vegas Convention Center is the largest single-level convention and meeting facility in the U.S. In January 2002, the convention center added 934,988 square feet of exhibit space and 90,501 square feet of meeting space. The convention center includes 3.2 million square feet of net exhibit space, and 243,950 square feet of net meeting room space, accommodating 144 meeting rooms with seating capacities from 20 to 12,000.

### Orlando Convention Center

The Orange County Convention Center, located in Orlando, has expanded four times since opening in 1983. After the completion of the fourth expansion, the center features 1,103,538 square feet of contiguous exhibition space. However, a fifth expansion is scheduled for completion in 2003. From 1983 to present, the convention center has hosted more than 5.4 million convention delegates, generating in excess of \$11 billion for the Orlando economy.

### Expansion of Texas Centers

The following graph illustrates the total current amount and estimated additional amount of exhibit space that will be added to Texas meeting facilities by 2004. By 2004 San Antonio, with the added exhibit space, will be the third largest meeting facility in the State of Texas behind Dallas and Houston.



### Conclusion

San Antonio's convention business has been stable over the last 10 years, averaging over 1,500 conventions and 545,000 attendees. This is a result of aggressive marketing and sales efforts of the Convention and Visitors Bureau and continuous

improvements of tourist attractions and amenities. The future growth of San Antonio's convention business will be supported by the continued improvements of the convention center, an additional convention center headquarters hotel and the strength and reputation of the city's tourism industry.



## V - SITE AND FACILITIES ANALYSES



**LOCATION**

The proposed hotel will be located on the southwest corner of Market and Bowie streets in the downtown River Walk district of San Antonio. Market Street is a major east/west artery in the San Antonio CBD and runs one way. Bowie Street runs north/south and is a two-way street. To the north, Bowie Street runs parallel to I-37 and merges into Bonham Street. To the south, Bowie merges into Market Street at the convention center.

**Access and Visibility**

The site can be accessed by Market Street to the north and Bowie Street to the east. The site has excellent freeway access and is supported by major thoroughfares.

**Demand Generators And Area Amenities**

Demand is estimated to be generated by two major sources, convention/group meeting attendees and tourist/leisure travelers. Another source of demand is individual business travelers from nearby companies. The proposed hotel is well located with respect to attracting convention/group and tourist/leisure demand since the site is immediately adjacent to the convention center and very near the concentration of entertainment establishments located along the River Walk.

The Henry B. Gonzalez Convention Center offers a very attractive landscaped setting, with a large complement of amenities located nearby. Immediately to the east of the convention center is the Alamodome. North is the Rivercenter Mall, site of the IMAX Theater. Offerings within one mile include the Alamo, the Tower of the Americas, Arneson River Theater, many restaurants, and several retail concentrations.

**Surrounding Land Uses**

Land surrounding the Henry B. Gonzalez Convention Center in all directions is largely developed with commercial uses.

**DEVELOPMENT CONCEPT**

The development concept for the proposed hotel calls for a high-end dedicated facility with quality guest rooms, restaurants, lounge and other public spaces; executive meeting space with dedicated meeting rooms, furniture, fixtures and equipment; and a meeting services support staff. This type of facility appeals to the convention/group market and is planned for a market position that will be competitive with several large existing group/convention facilities in the San Antonio area and in the state and region and, to a lesser extent, established properties located throughout the nation.

**PROPOSED FACILITIES****Guest Rooms**

PKF Consulting recommends the proposed hotel offer 1,500 guestrooms. Analyzing the rooms mix of the primary competitive set, with emphasis on the rooms offered at the Marriott Rivercenter, Marriott Riverwalk and the Hyatt Regency, we recommend that each guest room offer the following amenities at a minimum:

- sufficient area to accommodate a king or two double sized bed/s and work area;
- bath/dressing area equipped with a hand held hair dryer, and amenity tray supplied with quality bath products;
- cable TV with pay-per-view movies
- quality down comforter and pillows;
- alarm clock/radio with CD player;
- desk with ample work space and lighting, and ergonomic desk chair;
- two telephones with two lines, voice mail, and high speed internet connection;
- a coffee maker and complimentary coffee;
- a comfortable lounge chair; and
- a mirrored closet with iron and board.

We also recommend that the 1,500 rooms be configured as follows:

- 55-60% Double/Doubles
- 30-35% Kings
- 8.5-9% Suites
- 0.7-1.2% Parlors
- 0.2-0.3% Presidential/ Special Suites

The double/doubles rooms should offer double sinks to accommodate the double occupancies reflective of convention center demand. Further, at least half of the rooms (preferably 75%) should be designated as non-smoking rooms.

**Meeting Space**

Among the primary competitive set, there is a total of approximately 181,000 square feet of meeting space (average of 52 square feet per guest room). The subject property is anticipated to be most similar to the Marriott Rivercenter, which has the largest amount of meeting space among the competitive set. However, according to the general manager of the Marriott, if he could change anything about the property, he would add a larger ballroom and increase the function space. Further, every general manager among the primary competitive set stated that an increase in their meeting space would be the one thing they would like to change about their property, a common problem in many group-



oriented hotels. The following chart highlights comparable convention center properties around the nation.

Hotel Name	Number of Rooms	Largest Ballroom	Junior Ballroom	Total Sq. Ft. of Function Space	Function Space/Room Ratio
Adam's Mark Dallas	1,844	41,000	20,000	240,000	130.2
Atlanta Marriott Marquis	1,675	38,077	28,884	120,000	71.6
Sheraton Chicago Hotel	1,639	40,000	13,000	120,000	73.2
Wyndham Anatole Hotel	1,620	73,000	45,000	246,000	151.9
Hilton New Orleans	1,600	27,000	24,500	127,000	79.4
Hilton Anaheim	1,572	28,582	28,582	68,322	43.5
San Francisco Marriott	1,500	39,865	23,165	100,000	66.7
Marriott Philadelphia	1,408	38,500	33,000	117,000	83.1
Hyatt Regency Atlanta	1,264	38,195	28,832	180,000	142.4
Hilton Atlanta	1,224	18,576	16,244	104,000	85.0
Hyatt Regency New Orleans	1,184	25,000	8,100	95,103	80.3
Marriott Rivercenter	1,000	41,600	2,640	60,000	60.0
<b>Total/Average</b>	<b>1,461</b>	<b>37,450</b>	<b>22,662</b>	<b>131,452</b>	<b>88.9</b>
Gaylord Hotel - Grapevine*	1,508	49,500	32,200	380,000	252
Hilton Americas - Houston*	1,200	40,000	26,000	91,500	76.3
<b>Average Including Under Construction Properties</b>	<b>1,446</b>	<b>38,493</b>	<b>23,582</b>	<b>146,352</b>	<b>99.7</b>
*Properties currently under construction					
Source: Respective Hotels, Compiled by PKF Consulting					

Square footage of function space per hotel room ranges from 60.0 to 151.9, with an average of 88.9 using properties that are established. Factoring in the two properties that are currently under construction, the average function space per room is 99.7. Taking into consideration the size of Opryland and the fact that it is not located immediately adjacent to a convention center, we recommend that the subject 1,500-room hotel offer a minimum of 120,000 square feet of meeting and function space. This should include a 40,000-square foot ballroom and a 25,000-square foot junior ballroom. While the hotel will be very near the Henry B. Gonzalez Convention Center, in order to be financially successful the property will need its own function space.

### Food and Beverage Facilities

The subject hotel will have access to the many restaurants along the River Walk, and planned meals are usually included as part of a convention program, therefore, the subject property does not need extensive food and beverage facilities. The hotel should offer a lobby lounge, and a café that offers light meals and snacks. A restaurant serving breakfast, lunch and dinner with buffet facilities should also be included. Room service should be available at least 18 hours per day and a banquet kitchen capable of serving large events should be available for those utilizing meeting space. The food and beverage services should be designed to appeal to hotel guests and the public by offering an upscale and distinctive product.

**Other Facilities and Amenities**

The proposed hotel should include a fitness facility, outdoor swimming pool, laundry and dry cleaning, and housekeeping services. Valet parking should also be available. The property should offer a business center with fax, copy machine, computer and printer available for guest use, a gift/sundry shop, and shuttle vans/service to and from the airport.

We assume that the property will meet all required standards of the Americans with Disabilities Act (ADA), and be constructed in a workman-like manner consistent with the selected chain's required prototype specifications.

**CHAIN AFFILIATION**

The subject property will require an affiliation with a chain that has a strong reputation in the convention/group and meetings market. Chain properties provide referrals from meeting planners to their properties in other areas and have the ability to attract large convention groups. The subject hotel will benefit from shared marketing programs, name recognition, a toll free centralized reservations system, and a web site. Chain affiliations provide the traveling public with confidence in the quality of product and high standards of service due to corporately mandated standards, prototypical construction, price structures, as well as employee training programs that focus on service delivery. Furthermore, a chain affiliation offers the property a referral network, and guests familiar with the product will seek accommodations in other locations within that network.

In addition, hotels offering a frequent stay rewards program appeal to the individual business traveler and individuals who attend meetings or conventions for business. They promote brand loyalty and a significant amount of repeat patronage.

**CONCLUSION**

The proposed hotel will be located adjacent the convention center, close to major demand generators and leisure attractions. The hotel will offer newly constructed, quality guest rooms and amenities with a good price/value relationship. It will be the largest hotel in San Antonio and comparable to facilities available in Dallas and New Orleans. In San Antonio, the Marriott Rivercenter and Marriott Riverwalk offer a combined 1,500 guestrooms. The hotel will be part of a central reservation system and frequent stay program and will be well positioned to attract present and future area demand.

## VI - HOTEL MARKET ANALYSIS





## OVERVIEW OF SAN ANTONIO HOTEL MARKET

High occupancies and growing average rates experienced by the San Antonio hotel market during the late 1990s spurred an increase in the hotel supply. This development trend corresponded to the fast growing leisure and group markets and the overall improving economy of the city. In addition, the opening of Sea World and Fiesta Texas enhanced San Antonio's appeal as a tourist destination and the passing of NAFTA stimulated trade and commerce between San Antonio and Mexico. In 1997, there were approximately 25,600 hotel rooms in the San Antonio Metropolitan area. By year-end 2001, over 3,000 rooms had been added. Because of these supply additions, the citywide hotel occupancy levels have fluctuated in the mid to high 60s.

San Antonio Citywide Hotel Trends			
Year	Occupancy	Average Daily Rate	RevPAR
1997	65.1%	\$75.65	\$49.23
1998	67.2%	\$82.88	\$55.67
1999	65.1%	\$83.94	\$54.64
2000	66.4%	\$86.77	\$57.59
2001	64.8%	\$86.49	\$56.05
CAC <sup>1</sup>	--	3.4%	3.3%
Year-to-date through June 2001	69.2%	\$90.93	\$62.97
Year-to-date through June 2002	70.9%	\$90.77	\$64.35
<sup>1</sup> Compound Annual Change			
Source: PKF Consulting - Texas Hotel Industry Report 2002			

The majority of the new hotels have been limited-service and are located in the CBD, north, and northwest areas of the city. The only full-service hotels that have been constructed in the CBD since the opening of the Marriott Rivercenter in 1988 are the Adam's Mark, which opened in August 1997, and the Westin River Walk, which opened November 15, 1999.

The following table highlights the year-end 2000 and 2001 performance of all sectors of San Antonio. The CBD has historically outperformed all sectors of San Antonio, both in terms of occupancy and ADR. The 2001 Revenue per Available Room (RevPAR) for the CBD, although down 1.3% from 2000, is \$18 (32%) higher than the RevPAR for the entire city. When compared to 2000, the CBD has increased its RevPAR lead over the entire city \$2 and three percentage points. The strength of the downtown market is attributed to the centralized concentration of attractions, including the River Walk and the convention center.

San Antonio Hotel Market Year-End Performance									
	Occupancy			Average Daily Rate			RevPAR		
	2000	2001	Diff	2000	2001	% Diff	2000	2001	% Diff
City of San Antonio	66.4%	64.8%	-1.6	\$86.77	\$86.49	-0.3%	\$57.59	\$56.05	-2.7%
CBD	70.0%	67.4%	-2.6	\$106.87	\$109.55	2.5%	\$74.86	\$73.89	-1.3%
North/Airport	68.0%	69.9%	1.9	\$77.46	\$78.88	1.8%	\$52.69	\$55.16	4.7%
Northeast	57.9%	57.6%	-0.3	\$53.16	\$50.49	-5.0%	\$30.80	\$29.08	-5.6%
Northwest/Fiesta Texas	62.7%	60.7%	-2	\$69.30	\$69.13	-0.2%	\$43.44	\$41.96	-3.4%
South	59.3%	56.1%	-3.2	\$57.06	\$59.68	4.6%	\$33.86	\$33.50	-1.1%
RevPAR is calculated by multiplying the occupancy times the average daily rate									
Source: PKF Consulting - Trends in the Hotel Industry, December 2001									

During the first six months of 2002, the downtown market has seen a 4.4 occupancy point increase, which has affected the overall citywide occupancy for San Antonio (1.6 point increase). The increase can be attributed to a slow-down in the national economy, causing an increase in the leisure market segment due to the accessibility of San Antonio by automobile. On the other hand, the CBD has remained flat in terms of average daily rate due to a disruption in the convention center as an expansion and renovation was completed and discounting rates to attract leisure travelers. Growth in ADR has been declining in all market sectors, with the exception of downtown and the Northeast. However, year-to-date through June, all sectors saw an increase in RevPAR, with the exception of the North/Airport sector.

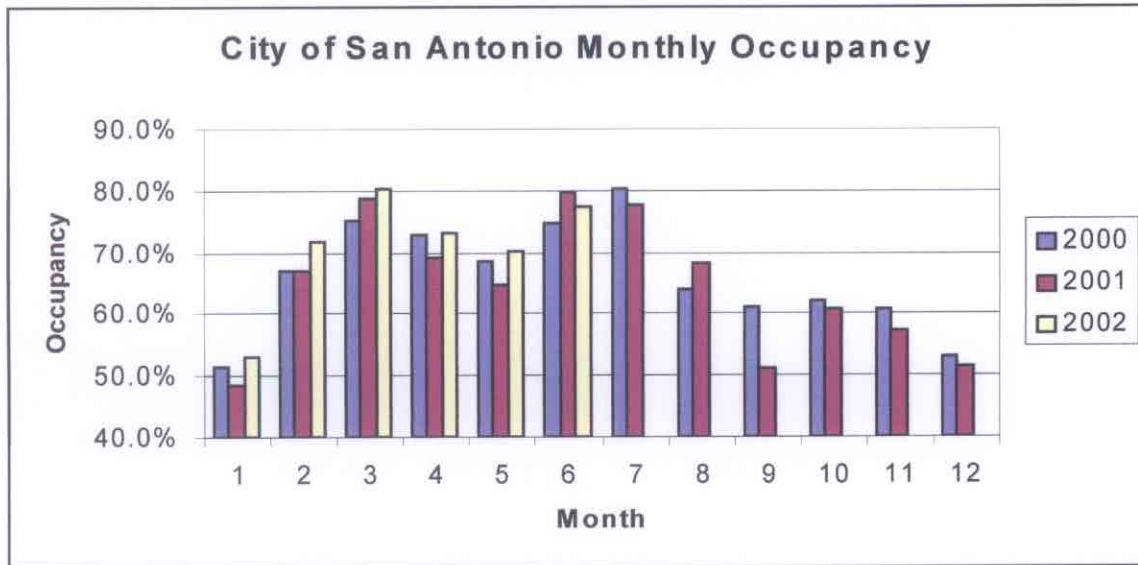
San Antonio Hotel Market Year-To-Date Through June Performance									
	Occupancy			Average Daily Rate			RevPAR		
	2001	2002	Diff	2001	2002	% Diff	2001	2002	% Diff
City of San Antonio	69.2%	70.9%	1.6	\$90.93	\$90.77	-0.2%	\$62.97	\$64.35	2.2%
CBD	72.2%	76.7%	4.4	\$115.45	\$115.83	0.3%	\$83.37	\$88.79	6.5%
North/Airport	76.0%	69.1%	-6.9	\$83.93	\$83.14	-0.9%	\$63.76	\$57.44	-9.9%
Northeast	60.3%	60.1%	-0.2	\$51.17	\$56.75	10.9%	\$30.86	\$34.09	10.4%
Northwest/Fiesta Texas	64.9%	68.2%	3.3	\$70.15	\$68.96	-1.7%	\$45.50	\$47.00	3.3%
South	60.4%	71.0%	10.6	\$60.67	\$56.27	-7.3%	\$36.65	\$39.96	9.0%
RevPAR is calculated by multiplying the occupancy times the average daily rate									
Source: PKF Consulting - Trends in the Hotel Industry, June 2002									

### Seasonality

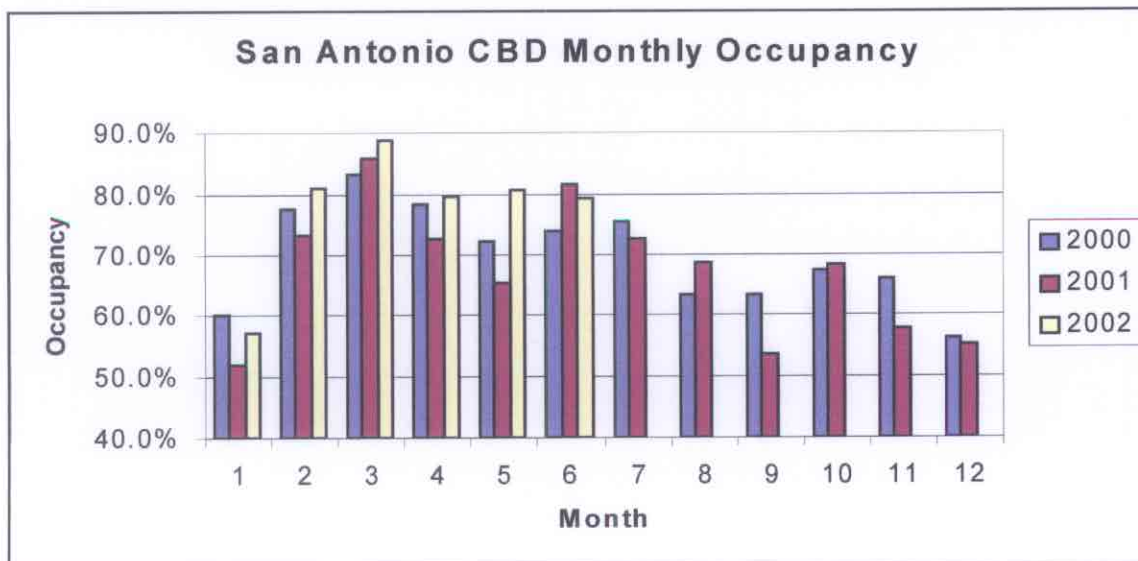
Rooms demand in the downtown San Antonio lodging market is generally strong on weekends throughout the year due to the market's popularity as a regional weekend get-a-way and for its appeal to conventioners that stay over the weekends. Most convention group business occurs on weekdays, as does most individual business and corporate group demand. As a result of a strong tourist base and frequent weekend stay-over by convention groups, this market experiences higher occupancy levels on weekends than on weekdays.

Demand is typically the strongest from mid-February through mid-August for the City of San Antonio as well as the CBD market. Demand begins to decrease in September and throughout the remaining months of the year. However, the CBD market increases demand in October through mid-November up until Thanksgiving. These demand patterns are driven largely by group activity, which typically peaks in the spring and fall

and tourist/leisure activity, which typically peaks in the summer months. The following graph illustrates the monthly occupancy levels achieved by the City of San Antonio from 2000 through June 2002.



The following graph illustrates the monthly occupancy levels achieved by the San Antonio CBD market from 2000 through June 2002.

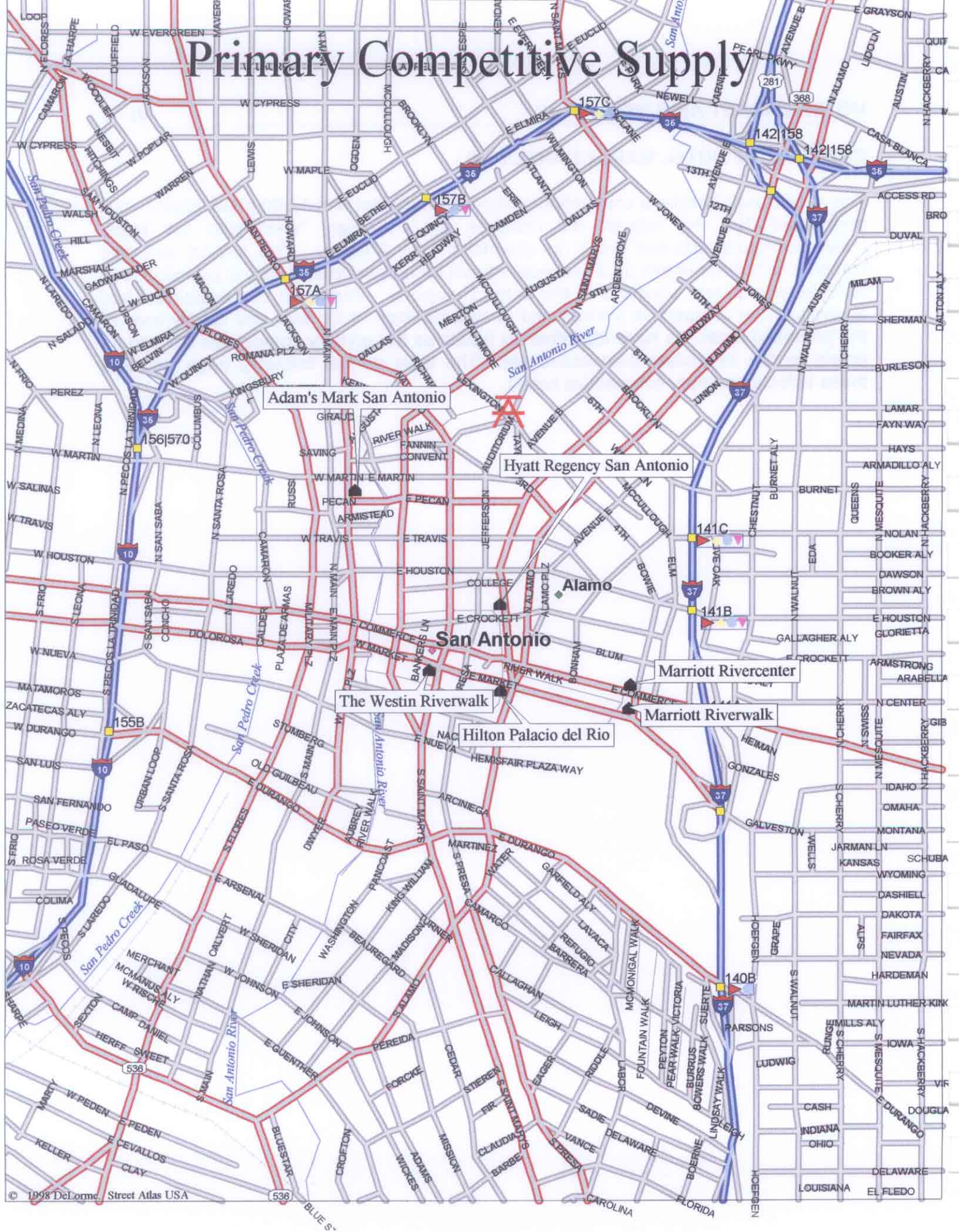




**COMPETITIVE HOTEL MARKET ANALYSIS**

The subject hotel will be a convention/group-oriented hotel with 1,500 guest rooms. It is anticipated that the subject will compete on a primary basis with the large, convention/group-oriented hotels in downtown San Antonio. The subject will also compete with other hotels on a secondary basis for corporate and leisure business, due to location and rate structure of the subject property. Based on our evaluation and analysis of the competitive market, and in consideration of the size and quality level of the proposed hotel, we have identified six hotels as the primary competitive set and 11 hotels as the secondary competitive set. The table on the following page presents these selected primary competitive hotels.

# Primary Competitive Supply





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<sup>1</sup>Total net space is square footage of all meeting rooms and ballrooms, exclusive of prefunction space

<sup>2</sup>Amenities: R-Restaurant, L-Lounge, SP-Swimming Pool, ER-Exercise Room, MB-Mini Bars, BC-Business Center/Services, GS-Gift Shop

Source: Facility managers or management companies; Compiled by: PKF Consulting



**Primary Competitive Supply**

The primary competitive supply will compete with the subject hotel for group and convention business in downtown San Antonio. These properties offer the largest amount of guest rooms as well as meeting space and dominate the group market in San Antonio. The subject hotel will offer 1,500 rooms and will be the largest hotel in downtown San Antonio. Following is a brief description of each property.

**San Antonio Marriott Rivercenter**

Opened in late 1988, the Marriott Rivercenter is the newest full-service, convention center-oriented hotel in the competitive set. This 1,000-room hotel is often the city's headquarters hotel for citywide conventions. It is located one block from the convention center and is part of the Rivercenter Mall, a retail/food/hotel complex offering approximately 140 shops and restaurants. In conjunction with the construction of the Rivercenter Mall, the river channel was extended from the Marriott Riverwalk to the mall and a turning basin was added for the riverboats.

**San Antonio Marriott Riverwalk**

Built in 1979, the 500-room Marriott Riverwalk is located directly north of and across the street from the convention center. It is also directly south of and across the street from the Marriott Rivercenter. The two hotels benefit greatly from their proximity to each other as they are managed together and marketed as the city's primary headquarters hotels for all major conventions. The Marriott Riverwalk hosts more leisure travelers than the larger property. Competitive advantages include its proximity to the convention center and ability to provide the largest room block in the city under one flag and reservation system.

**Hyatt Regency San Antonio**

Built in 1981, the 631-room Hyatt Regency San Antonio is located on the River Walk, approximately three blocks north of the convention center. The Hyatt enjoys a central location on the River Walk, as well as direct access to the Alamo through the Paseo del Alamo, a pedestrian link of retail shops connecting the Alamo to the River Walk. Parking is conveniently located in a structure across Losoya Street from the hotel. Amenities include an atrium lobby, a sky pool and business class rooms with fax machines.

**Hilton Palacio del Rio**

The 481-room Hilton Palacio del Rio was the city's primary convention hotel before the Hyatt Regency and two Marriott hotels opened. Because it is on the River Walk at a highly visible street intersection and is across the street from the convention center, the Hilton has one of the prime locations in the city. Built in 1968, the property has been maintained over the years, but currently is in need of renovation. Due to its size and location, the Hilton caters primarily to convention groups. The Hilton's competitive disadvantages include its dated 1960s architecture and expensive remote parking.

Recently, however, room sizes were increased by moving windows to the end of existing balconies.

#### **The Westin Riverwalk**

The Westin Riverwalk is the newest addition to San Antonio, partially opening on November 15, 1999. The hotel is located on a prime portion of the River Walk and is located three blocks west of the convention center. The Westin has added amenities such as a wet bar and bathrobes in the guest rooms. Additionally, the Westin features the Heavenly Bed which includes a pillow-top mattress, down comforter and duvet, three 180 to 250-thread count sheets, and five pillows.

#### **The Adam's Mark San Antonio**

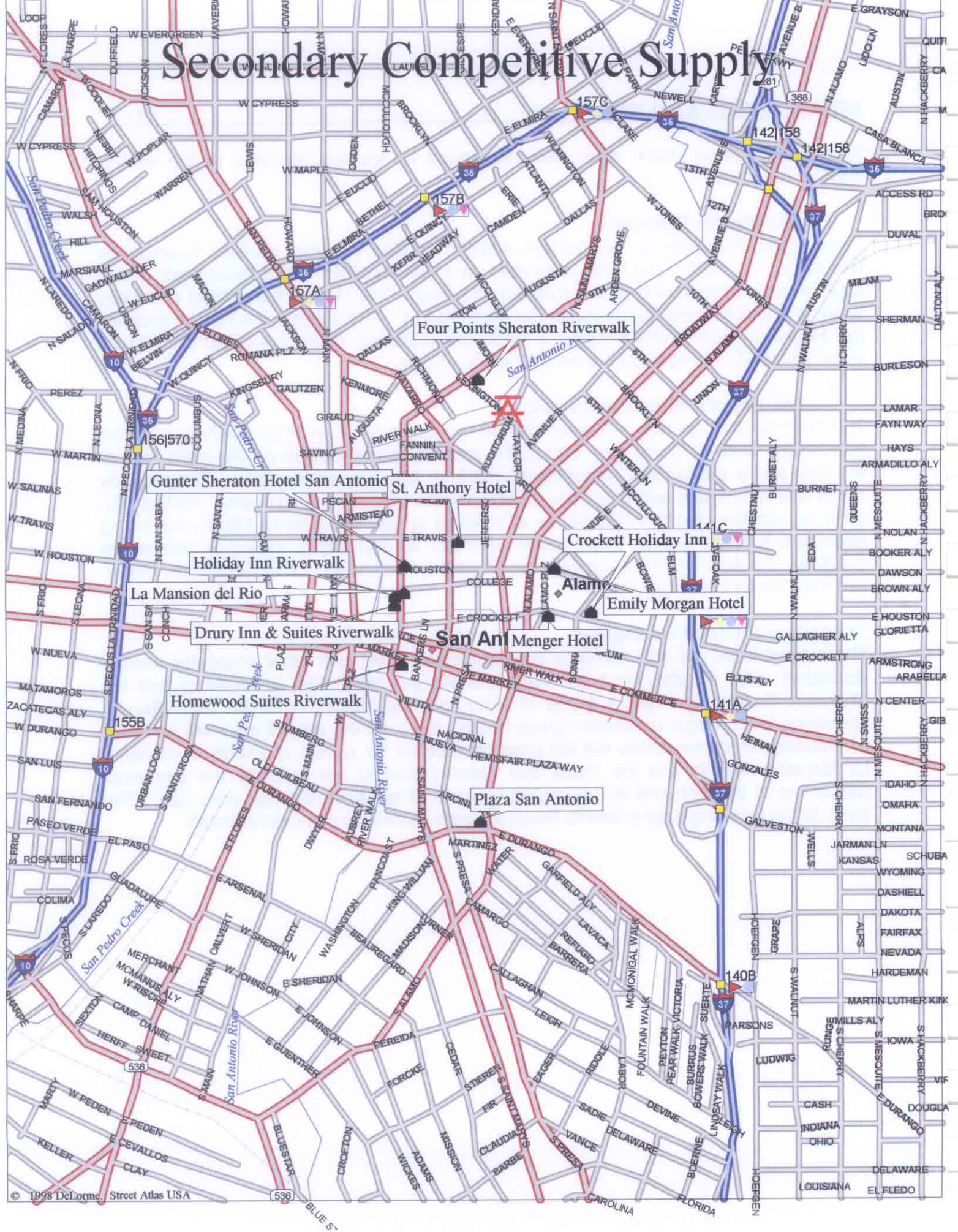
The Adam's Mark opened in August 1997 as a conversion of an office building. Located four blocks north of Commerce Street, the property is not located on the main loop of the river and is the furthest competitive hotel from the convention center. The property offers 410 rooms and approximately 21,000 square feet of meeting space. Historically, given its location and the abundance of meeting space, the Adam's Mark's marketing strategy is to target groups it can house internally, as opposed to relying on convention overflow. As the convention center is expanded and citywide conventions grow larger, this may become less prevalent.

#### **Secondary Competitive Supply**

The subject hotel will also compete on a secondary level with other properties located downtown. The Holiday Inn River Walk, the Menger Hotel, The St. Anthony and the Sheraton Gunter represent a group of older, mid-tier hotels downtown that offer an alternative to the larger convention/group hotels. Although the subject hotel will be newly constructed, these properties will still pose competition for certain segments of demand. La Mansión del Rio and the Plaza San Antonio Marriott are currently the properties performing at the high-end of the market in terms of achieved average daily rate. The table on the following page presents these selected secondary competitive hotels.



# Secondary Competitive Supply





## HOTEL MARKET ANALYSIS

Competitive Hotels Facilities Analysis San Antonio Proposed Convention Center Hotel						Amenities <sup>2</sup>
Property	No. Rms	Year Opened	2002 Quoted Rates	Net Square Footage	Meeting Rooms	
				Ballroom	Ttl. Net Space <sup>1</sup>	
<b>Secondary Competitive Supply</b>						
1 The St. Anthony, A Wyndham Historic Hotel 300 East Travis	352	1909	\$210.00	3,621	24,000	R, L, SP, ER, BC, GS
2 La Mansion del Rio 112 College Street	337	1969	\$209/\$319	4,268	15,000	R, L, SP, ER, MB, BC, GS
3 Four Points Sheraton River Walk 110 Lexington	324	1962	\$140.00	11,540	37,000	R, L, SP, ER, BC, GS
4 Sheraton Gunter Hotel San Antonio 205 East Houston Street	322	1909	\$139.00	3,050	23,000	R, L, SP, ER, BC, GS
5 The Menger Hotel 204 Alamo Plaza	317	1859	\$195.00	4,500	11,935	R, L, SP, ER, BC, GS
6 Holiday Inn River Walk 217 North St. Mary's Street	313	1987	\$169.95	5,200	10,550	R, L, SP, ER, BC, GS
7 Plaza San Antonio, A Marriott Hotel 555 South Alamo Street	252	1979	\$254.00	6,110	16,000	R, L, SP, ER, BC, GS
8 Crockett Holiday Inn 320 Bonham	206	1909	\$199.94	1,304	2,145	R, L, SP, BC
9 Emily Morgan Hotel 705 E. Houston Street	177	1985	\$209.00	874	2,400	R, L, SP, ER, MB, BC
10 Drury Inn & Suites River Walk 201 N. St. Mary's Street	150	1999	\$145/\$168	N/A	6,000	SP, ER, BC
11 Homewood Suites River Walk 432 Market Street	146	1996	\$189.00	900	1,813	SP, ER, BC, GS
<b>2001 Totals / Averages</b>	<b>Total Rms</b> 2,896	<b>Avg Rms</b> 263	<b>Occ</b> 68.0%	<b>ADR</b> \$117		

<sup>1</sup>Total net space is square footage of all meeting rooms and ballrooms, exclusive of prefunction space

<sup>2</sup>Amenities: R-Restaurant, L-Lounge, SP-Swimming Pool, ER-Exercise Room, MB-Mini Bars, BC-Business Center/Services, GS- Gift Shop

Source: Facility managers or management companies. Compiled by: PKF Consulting

**The St. Anthony – A Wyndham Historic Hotel**

The St. Anthony originally opened in 1909, and was completely renovated and modernized in the 1970s. Beginning in 1994, approximately \$1.8 million was spent to renovate guest rooms and common areas and upgrade the mechanical systems. The St. Anthony had been affiliated with Crowne Plaza Hotels until late 1998 when it became a Wyndham Historic Hotel and a major renovation of the hotel coincided with the name change.

**La Mansión del Rio**

St. Mary's Institute was constructed in 1852 and later converted to the 337-room La Mansión del Rio in 1969. The hotel is independently operated, and is a member of Preferred Hotels & Resorts, an international association of luxury hotels. This hotel is widely considered to capture the true ambiance of San Antonio with architecture and décor reminiscent of Colonial Spain. The property is situated along the River Walk and features a landscaped open courtyard and pool area.

**Four Points Sheraton River Walk**

The 324-room Four Points Sheraton River Walk, built in 1962, is a nine-story hotel located at the intersection of Lexington and North St. Mary's on San Antonio's famous River Walk. Facilities include a fitness center, outdoor pool, restaurant, lounge, gift shop and a business center. The hotel attracts group related business followed by leisure travel and some independent business travel. Even though the hotel is located on the River Walk, it is still a few miles away from the convention center and the Alamo. As a result, the Sheraton has consistently achieved a below average ADR.

**Sheraton Gunter Hotel San Antonio**

The Gunter is not located on the River Walk, but is located on Houston Street, an area undergoing significant redevelopment. The Gunter was originally constructed in 1909 with 302 guest rooms in eight stories. In 1917 a ninth story was added and in 1926 three more stories were added for a total of 12 floors and 432 rooms. In 1979, the property underwent a complete restoration. At that time, the rooms were enlarged, decreasing the room count to 322, and 14 meeting rooms were added. In 1985, additional renovation took place including the addition of a swimming pool, exercise room, parking garage, and covered entrance.

During the past several years, the Gunter Hotel has undergone several changes of ownership and changes in affiliation, from a Sheraton to a Radisson, to a Camberley Hotel and then back to a Sheraton. Due to changes in ownership and unfocused renovation attempts during the last few years, the Gunter developed a reputation in the market as a second tier property. However, with the most recent change and renovation, the property should regain market share, particularly in conjunction with the redevelopment of Houston Street.



**The Menger Hotel**

The historic Menger Hotel opened in 1859 and has undergone several renovations and expansions. While it is not located on the River Walk, it is located adjacent to the Rivercenter Mall and the Alamo and has an established reputation in San Antonio. With 317 rooms and over 11,000 square feet of meeting space, the hotel attracts a significant amount of group related business followed by leisure travel, and some individual business travel.

**Holiday Inn River Walk**

The 313-room Holiday Inn River Walk, built in 1987, is a 23-story hotel situated on St. Mary's Street with frontage on the San Antonio River. The property has a special concierge level on the top two floors and balconies are offered in 260 of the guest rooms. Its primary strengths are its location on the River Walk and its Holidex reservation system.

**Plaza San Antonio, A Marriott Hotel**

The 252-room Plaza San Antonio is located near the convention center, but is not on the River Walk. Due to its location, its primary business comes from group meetings and conventions. Subsequent to the hotel's opening in 1979, the owners renovated several adjacent historical buildings for use as a conference center. This hotel is situated on six acres across from the Hemisfair Plaza and adjacent to the La Villita historic shopping district. Because of the Plaza's high-end reputation and facilities, it benefits from the less rate sensitive convention guests and individual business travelers. However, due to its off-river location, the Plaza has consistently had a below average ADR.

**Crockett Holiday Inn**

The 206-room Crockett Holiday Inn, built in 1909, is a seven-story hotel situated on the corner of Bonham and Crockett streets adjacent to the Alamo. The hotel was affiliated with Best Western until converted into a Holiday Inn in September 1996. Facilities include outdoor pool, whirlpool and a restaurant. The hotel attracts a significant amount of group related business followed by leisure travel and some individual business travel.

**Emily Morgan Hotel**

The Emily Morgan Hotel first opened its doors on April 1, 1926 as a Medical Arts Building. In 1985, after a \$17.5 million renovation, the building re-opened as the new Emily Morgan Hotel. In 2001, another \$5 million complete interior redesign made the hotel a truly unique offering for San Antonio visitors. Facilities in this 13-story, 177-room hotel include a health club/fitness center, pool and Jacuzzi, 24-hour room service, a restaurant and a bar. This boutique hotel attracts a significant amount of group related business, followed by independent business travel and some leisure travel.



### Drury Inn and Suites River Walk

Opened in 1999, the Drury Inn & Suites River Walk is a hotel converted from a restored historic building constructed in the 1920s. The hotel offers 150 rooms and 6,000 square feet of meeting space and is located on the River Walk near the intersection of Commerce and St. Mary's. The hotel offers complimentary breakfast, 24-hour business center, exercise room, rooftop outdoor pool and whirlpool, and an on-site steakhouse. The hotel attracts a significant amount of group related business followed by leisure travel and some individual business travel.

### Homewood Suites River Walk

Built in 1996, the Homewood Suites River Walk is centrally located in downtown San Antonio at the intersection of St. Mary's and Market street within walking distance to all the attractions of the downtown and River Walk area. Facilities at this 146-room, all suite, 12-story property include a gift shop, 24-hour business center, evening social hour, outdoor pool, and fitness center. The hotel attracts a significant group related and leisure travel business, followed by some independent business travel. Homewood Suites is affiliated with Hilton Hotels and benefits from the Hilton Honors frequent traveler program.

## HISTORIC MARKET PERFORMANCE OVERVIEW

### Historic Market Performance

The following table summarizes the estimated performance of the primary competitive set from 1997 through 2001.

Estimated Historic Market Performance Primary Competitive Set - San Antonio - CBD								
Year	Available Rooms	Change	Market Occ. % <sup>1</sup>	Occupied Rooms <sup>2</sup>	Change	ADR	Change	RevPAR <sup>3</sup>
1997	1,016,890	---	80%	809,600	---	\$136.60	---	\$108.76
1998	1,103,760	8.5%	79%	870,000	7.5%	\$142.02	4.0%	\$111.95
1999	1,132,960	2.6%	77%	875,600	0.6%	\$143.63	1.1%	\$111.00
2000	1,276,405	12.7%	77%	981,700	12.1%	\$145.19	1.1%	\$111.66
2001	1,276,405	0.0%	74%	943,000	-3.9%	\$147.80	1.8%	\$109.20
CAC <sup>4</sup>	5.8%	---	---	3.9%	---	2.0%	---	0.1%
1 Rounded to the nearest whole percent				3 RevPAR = Occ. x ADR, using non-rounded numbers				
2 Rounded to the nearest hundred				4 Compound Annual Change				
Source: PKF Consulting								

The primary competitive set has not been impacted by new supply over the previous five-year period. In 1998, the first full operating year for the Adam's Mark Hotel, supply increased 8.5%, while demand increased 7.5%. This trend continues with the addition of the Westin River Walk Hotel. In its first full operating year, supply increased from 1,132,960 available rooms to 1,276,405 rooms or 12.7%. During this same period, demand increased from 875,600 occupied rooms to 981,700 occupied rooms or 12.1%.

The primary competitive set has seen occupancy dip slightly from a high of 80% in 1997 to a low of 74% in 2001. The low occupancy in 2001 can be attributed to the expansion

of the convention center, the aftereffects of September 11 and the downward turn in the economy in general. Due to the consistent nature of the group and convention segment in San Antonio and its domination of the primary competitive set, this market has been able to sustain very high levels of occupancy. Further, while occupancy has hovered in the mid to high 70s, ADR has increased over \$11 or 2% compound annual change from 1997 through 2001.

The following table summarizes the estimated performance of the secondary competitive set from 1997 through 2001.

Estimated Historic Market Performance Secondary Competitive Set - San Antonio - CBD								
Year	Available Rooms	Change	Market Occ.% <sup>1</sup>	Occupied Rooms <sup>2</sup>	Change	ADR	Change	RevPAR <sup>3</sup>
1997	1,002,290	---	66%	664,900	---	\$107.94	---	\$71.60
1998	1,002,290	0.0%	70%	705,400	6.1%	\$110.68	2.5%	\$77.88
1999	1,047,915	4.6%	69%	727,300	3.1%	\$110.61	-0.1%	\$76.77
2000	1,057,040	0.9%	71%	754,800	3.8%	\$113.83	2.9%	\$81.29
2001	1,057,040	0.0%	68%	721,000	-4.5%	\$116.62	2.4%	\$79.54
CAC <sup>4</sup>	1.3%	---	---	2.0%	---	2.0%	---	2.7%
<sup>1</sup> Rounded to the nearest whole percent <sup>2</sup> Rounded to the nearest hundred <sup>3</sup> RevPAR = Occ. x ADR, using non-rounded numbers <sup>4</sup> Compound Annual Change Source: PKF Consulting								

The secondary competitive set has achieved occupancies from a high of 71% in 2000 to a low of 66% in 1997. The number of available rooms has increased 1.3% compounded annually, with the opening of the 150-room Drury Inn & Suites. During the same period, demand and ADR have increased 2% compounded annually. Several of the secondary properties have fluctuated in levels of occupancy during the five-year period studied, causing the overall fluctuations in the market occupancy.

The following chart highlights the primary and secondary competitive sets combined.

Estimated Historic Market Performance Combined Competitive Sets - San Antonio - CBD								
Year	Available Rooms		Market Occ.% <sup>1</sup>	Occupied Rooms <sup>2</sup>		ADR		RevPAR <sup>3</sup>
	Total	Change		Total	Change	Total	Change	
1997	2,019,180	---	73%	1,474,500	---	\$123.68	---	\$90.31
1998	2,106,050	4.3%	75%	1,575,400	6.8%	\$127.99	3.5%	\$95.73
1999	2,180,875	3.6%	73%	1,602,900	1.7%	\$128.64	0.5%	\$94.55
2000	2,333,445	7.0%	74%	1,736,500	8.3%	\$131.56	2.3%	\$97.90
2001	2,333,445	0.0%	71%	1,664,000	-4.2%	\$134.29	2.1%	\$95.76
CAC <sup>4</sup>	3.7%	---	---	3.1%	---	2.1%	---	1.5%
<sup>1</sup> Rounded to the nearest whole percent <sup>2</sup> Rounded to the nearest hundred <sup>3</sup> RevPAR = Occ. x ADR, using non-rounded numbers <sup>4</sup> Compound Annual Change Source: PKF Consulting								

The combined markets have averaged 74% occupancy from 1997 through 2001, while increasing ADR and RevPAR 2.1% and 1.5% respectively, over the same period. The 74% market occupancy over the five-year period illustrates the domination of the San Antonio group/convention and tourist/leisure demand segments. This performance is



## Demand Segmentation

Year	Convention/Group		Tourist/Leisure		IBT		Total Occupied Rooms
	Occupied Rooms	Percent of Total	Occupied Rooms	Percent of Total	Occupied Rooms	Percent of Total	
1997	587,200	73%	157,900	19%	64,500	8%	809,600
1998	631,100	73%	161,900	19%	77,000	8%	870,000
1999	632,000	72%	170,600	19%	73,000	9%	875,600
2000	676,600	69%	193,200	20%	111,900	11%	981,700
2001	675,300	72%	173,400	18%	94,300	10%	943,000
CAC*	3.6%	--	2.4%	--	10.0%	--	3.9%

\*Compound annual change

Source: PKF Consulting

A summary of the secondary market segmentation for the last five years is illustrated in the following table.

Secondary Competitive Hotels Market Mix Room Nights (Rounded to the nearest hundred)							
Year	Convention/Group		Tourist/Leisure		IBT		Total Occupied Rooms
	Occupied Rooms	Percent of Total	Occupied Rooms	Percent of Total	Occupied Rooms	Percent of Total	
1997	340,200	51%	239,700	36%	85,000	13%	664,900
1998	362,000	51%	252,900	36%	90,500	13%	705,400
1999	378,600	52%	252,900	35%	95,800	13%	727,300
2000	400,500	53%	254,300	34%	100,000	13%	754,800
2001	380,400	53%	236,700	33%	103,900	14%	721,000
CAC*	2.8%	--	-0.3%	--	5.1%	--	2.0%

\*Compound annual change

Source: PKF Consulting



Much like the primary competitive set, the secondary competitive set is very stable from year-to-year. Although the group segment accounts for the largest source of demand among the secondary set, it captures approximately 65,000 more tourist/leisure room nights of demand and 10,000 more IBT room nights of demand than the primary competitive market. This demonstrates the fact that the primary supply truly dominates the group market in San Antonio and the secondary market is more reliant on transient demand segments.

### **Convention/Group Demand**

Convention/group demand includes corporate meetings, social and affinity groups, association meetings, and conventions. The demand captured by the primary competitive hotels exceeds 70% due to their size, extensive meeting space and facilities, and proximity to the convention center, while the secondary competitive supply only reaches 50% of their total demand. From 1997 to 2001, demand in the group segment increased between 4% and 3% for both the primary and secondary supply.

### **Tourist/Leisure Demand**

The leisure segment consists of individual and family travelers drawn to the area by San Antonio's many attractions. The leisure segment generates the second largest amount of demand for both competitive supplies, approximately 19% to 35%. Leisure demand increased at a compound annual rate of 2.4% over the five-year period for the primary supply and decreased 0.3% for the secondary supply. The decrease in the secondary market is believed to be short-term. Many leisure/tourist travelers were able to take advantage of large, full-service hotels discounting their room rates to attract demand after the events of September 11 and the downward turn in the economy in general.

### **Individual Business Traveler Demand (IBT)**

Commercial demand represented approximately 10% of total demand for the primary competitive lodging market in 2001 and 14% for the secondary market. IBT demand is generated by commercial, retail and industrial enterprises in the downtown area. From 1997 to 2001, annual growth in IBT demand was between 10% and 5% for both competitive markets.

## **FUTURE SUPPLY AND DEMAND GROWTH**

### **Additions to Supply**

Based on PKF's research, we are aware of three additions to this competitive set. The first is the Hotel Valencia, a 214-room property currently under construction and planned to open in late 2002 or early 2003. The hotel is located on the southwest corner of Houston and St. Mary's streets. The property will be upscale and is expected to compete with the high-end of the competitive market.

The second is the 96-room Watermark Hotel currently under construction and planned to open in November 2003. The hotel is the redevelopment of the historic Karotkin

Building, across the river from the La Mansión Hotel. The Watermark Hotel will be marketed and operated in conjunction with the La Mansión Hotel. The property is expected to offer the most luxurious accommodations in the city when complete. It will be unique in that it will offer an 18,000 square foot destination spa. While this property will be a full-service hotel, including a three-meal restaurant and 2,135 square feet of meeting space, it is not expected to be directly competitive with the subject property. However, we have included the Watermark's room count into future supply to determine estimated future market conditions.

A 268-room all-suite hotel, to be located on a site along the southern portion of the main River Walk loop at Navarro Street, is the third hotel to be added to the competitive set. This project is considered preliminary, as it is involved in litigation. Originally designed as an Embassy Suites hotel, due to the litigation it is likely to have another flag such as Marriott or Sheraton. Given the fact that the site is one of the few remaining developable parcels on the River Walk, it is considered likely to be developed within the next five years.

We are also aware of several properties planned for development in downtown San Antonio. Preliminary plans call for the Bank One building on the corner of Commerce and St. Mary's streets to be converted into a 300-room full-service hotel. A hotel flag has yet to be determined. We believe this project will materialize and therefore have assumed an opening date of 2006. PKF is also aware of a proposed Regent Hotel and Park Plaza Hotel to be located on Houston Street. These projects are more speculative, therefore we have not included it in new supply.

Other than those listed, we have not included the potential effects of additional competitive rooms in the market in our quantitative analysis. While there are other properties that have recently opened, are under construction or rumored for development in the San Antonio CBD, the majority are limited-service or all-suite hotels which are not expected to compete directly with the subject. Should any comparable lodging facilities with a similar market orientation or price/value relationship enter the competitive lodging market, the estimated future utilization of the subject property could be adversely affected.

### **Estimated Future Growth of Demand**

Typically, the demand for hotel rooms in a given market area can be categorized in one of two ways:

- **Demonstrated Demand** - The demand that can be quantified by the existing occupancy levels at competitive hotels;
- **Unsatisfied or Induced Demand** - The demand that seeks accommodations in the competitive market, but is turned away due to capacity constraints; and demand that does not presently seek accommodations in the competitive



market, but could be persuaded to do so through marketing efforts, attractive room rates, location, facilities, services and amenities.

**Demonstrated Group Demand** – Based on the year-to-date 2002 hotel performance, as well as some hotels projecting decreases over year-end 2001 levels, PKF does not anticipate growth in the convention/group segment for 2002. In 2003, based on projections from hotels in the competitive sets and information provided by the Convention and Visitors Bureau anticipating a decrease in convention/group demand, PKF has estimated a decrease of 1% in convention/group demand. In 2004, and thereafter, a base growth rate is estimated to be 1%.

**Demonstrated Leisure Demand** – Based on the year-to-date performance, and 2002 year-end projections, no growth in leisure demand is expected. Further, it is estimated that the tourist/leisure segment will remain flat in 2003, with no growth over the 2002 level of demand. In 2004, and thereafter, growth is projected to be 1% per year.

**Demonstrated Individual Business Traveler (IBT) Demand** – Due to the lack of a large corporate base in San Antonio, and the after-effects of September 11 coupled with year-to-date occupancies and 2002 year-end projections, PKF expects IBT demand to remain flat with no increases in 2002 or 2003. In 2004, and throughout the projection period, growth is expected to be 1% per year.

**Unsatisfied and Induced Demand Generated by the Convention Center Expansion**  
To quantify the potential induced demand, PKF Consulting analyzed the past expansions of the convention center in conjunction with the meeting space offered at the primary competitive hotels. For the past five years, the convention center has generated an average of 2.4 group room nights per square foot of meeting space at the convention center. In a second scenario, the convention center combined with the primary competitive hotels has generated an average of 1.8 group room nights per square foot of total meeting space. PKF has calculated an incremental impact for group room nights for both scenarios based on the 2001 expansion of the convention center, and assumed an average of both.

The following chart highlights both ratios analyzed.



San Antonio Convention Center Activity					
Year	CVB Generated Room Nights	Convention Center <sup>1</sup>		Total Meeting Space <sup>2</sup>	
		Square Feet	Ratio	Square Feet	Ratio
1997	944,800	357,500	2.64	469,500	2.01
1998	1,038,500	357,500	2.90	491,500	2.11
1999	939,000	357,500	2.63	491,500	1.91
2000	921,490	357,500	2.58	491,500	1.87
2001	903,000	615,600	1.47	765,600	1.18
Average	949,358		2.44		1.82
<sup>1</sup> Includes meeting space at convention center					
<sup>2</sup> Includes meeting space at convention center and primary competitive hotels					

PKF Consulting used estimations of both ratios in order to estimate the future room nights that could be generated by the expanded convention center and added space at new hotels through 2006. Based on a conservative ratio of 2.4 room nights per square foot of convention center space, the expanded convention center could generate an extra 528,100 room nights over the average figure achieved over the past five years. Based on a ratio of 2.0 room nights per square foot of total primary competitive meeting space, the expanded hotel and convention meeting space could generate an extra 581,850 room nights. Taking into account both methods, it was estimated that the incremental room nights generated by the expanded convention center and additional hotel meetings market to be roughly 555,000 room nights, of which approximately 50% will be captured by the competitive set. Based on the two comparisons, it was assumed that created group demand resulting from the expansion will be approximately 277,500 room nights, of which 20% will be allocated in each year from 2002 through 2006.

### Unsatisfied and Induced Demand Generated by New Supply

In addition, PKF assumed that the introduction of new properties into the market will induce new demand into the market which previously could not be accommodated due to capacity constraints at the existing hotels. This demand will likely consist of corporate transient travelers, smaller groups such as associations and SMERF elements, and some leisure demand. PKF estimates that this induced demand will total 42,990 room nights phased over the 2002 through 2006 period.

It was also assumed that the proposed 1,500-room subject hotel will derive new demand in the market. This assumption was based on a review of in-house group demand captured by the competitive supply, the property's size and amount of meeting space, and the prominence of a headquarters hotel located adjacent the convention center. In 2007, it is estimated that 50% of the subject's room nights will induce demand into the San Antonio market. Of the 273,750 room nights induced into the market by the subject hotel, 60% will be in the convention/group market, 30% in the tourist/leisure market, and the remaining 10% in the IBT market. In addition to the room nights falling into the convention/group market, according to the San Antonio Convention and Visitors Bureau, from May 2001 through April of 2002, San Antonio has lost the opportunity to

house approximately 178,000 room nights due to the lack of a convention center headquarter hotel. PKF has assumed a re-capture factor of 60% in 2007, due to the opening of the subject hotel.

Over the projection period (2002-2009), it is estimated that over 700,000 room nights will be introduced into the San Antonio market as a result of the expansion of the convention center, new hotels, and the subject property. Approximately, 80% of the induced demand will be accounted for in the convention/group demand segment and nearly 70% of which will be attributed to the subject convention center hotel.

### Summary Of Demand Growth And Market Occupancies

Based upon the preceding analysis, the following table presents the market forecast for the entire competitive set for the next eight years.

Estimated Future Market Supply and Demand								
Year	Occupied Room Nights <sup>1</sup>					Available Room Nights		Est. Market Occ. <sup>2</sup>
	Convention/Group	Tourist/Leisure	IBT	Total	%Change	Total	%Change	
2002	1,114,300	410,300	198,400	1,723,000	-	2,353,133	-	73%
2003	1,140,200	413,500	202,400	1,756,100	1.9%	2,411,555	2.5%	73%
2004	1,214,800	426,600	209,100	1,850,500	5.4%	2,544,415	5.5%	73%
2005	1,285,600	430,900	211,200	1,927,700	4.2%	2,544,415	0.0%	76%
2006	1,361,900	443,400	216,600	2,021,900	4.9%	2,653,915	4.3%	76%
2007	1,646,600	530,000	246,200	2,422,800	30.9%	3,201,415	20.6%	76%
2008	1,663,000	535,300	248,600	2,446,900	26.9%	3,201,415	0.0%	76%
2009	1,679,700	540,600	251,100	2,471,400	22.2%	3,201,415	0.0%	77%
CAC <sup>3</sup>	6.0%	4.0%	3.4%	5.3%	-	4.5%	-	-

<sup>1</sup>Rounded to the nearest hundred  
<sup>2</sup>Rounded to the nearest whole percent  
<sup>3</sup>Compound Annual Change

The forgoing estimates of future market supply and demand assume that no major terrorist events occur that has a material adverse impact on travel to the subject market.

### CONCLUSION

The competitive market is expected to demonstrate significant growth in both supply and demand over the 2002 through 2009 period. We believe that by 2008 the market will have absorbed the new additions to supply, including the subject property, and demand will return to the previous high levels achieved in 2000.

**VII – ESTIMATED PERFORMANCE OF SUBJECT PROPERTY**





**METHODOLOGY**

In formulating our estimates for the subject property's position in the competitive market, PKF Consulting considered its fair market share and potential ability to penetrate the market. Fair market share is defined as the percentage of demand allocated to a given property based on its ratio of available guestrooms to the total number of rooms in the competitive market.

Market penetration is based on the attributes of a hotel relative to the competitive market. It is defined as the percentage of demand allocated to a property on the basis of such competitive characteristics as location, appearance, management expertise, physical condition, marketing orientation, rate structure, age, affiliation, reputation, size, facilities and amenities.

**Basis and Assumptions for Penetration**

In developing the basis for future penetration estimates, it was assumed that the proposed hotel would:

- be completed and finished to a quality level commensurate with an upscale, full-service convention center hotel, as described in this report;
- be affiliated with a reputable convention/group hotel management company;
- maintain high levels of service throughout the hotel;
- be competently managed and aggressively marketed;
- maintain competitive pricing policies; and
- no additional lodging facilities will enter the competitive field unless as noted within the body of this report.

**Fair Market Share Analysis**

The current competitive market contains 17 hotels with 6,393 rooms. The subject hotel will open in 2007 with 1,500 rooms. In 2009, the stabilized operating year for the subject hotel, there will be a total of 8,771 rooms. Based on our analysis, the subject's fair market share in the stabilized year would be 17% (1,500 divided by 8,771). All else being equal, market penetration achieved by a given lodging facility is correlated to the proportion of total supply represented by that facility. Thus, this level is the starting point in quantifying market penetration. Factors indicating that the subject hotel would possess competitive advantages support quantification of market penetration in excess of 100% of its fair market share; competitive disadvantages support a quantification less than 100% of its fair market share.

**MARKET SHARES OF COMPETITORS**

Historical composite market penetration rates for the primary competitive set has ranged from 81.9% to 114.3% over the 1997 – 2001 period. The convention/group segment is strong for the primary set with many properties well above 100% penetration. Overall, four

of the six properties in the primary competitive set are achieving 100% or more of their fair market share.

### **COMPETITIVE ANALYSIS OF THE PROPOSED HOTEL**

An evaluation of the relative strengths and weaknesses of the proposed 1,500-room convention center hotel among its competitive hotels follows:

- **Location-** The hotel will be adjacent the convention center, thus making the hotel extremely attractive to conventioners. The hotel is located near several attractions, such as the Rivercenter Mall, the IMAX Theater, and the River Walk, thus making the property attractive to tourist/leisure travelers.
- **Facilities-** The subject hotel is expected to offer newly constructed, excellent quality accommodations. It will offer a lounge, an exercise room, outdoor pool and 100,000 square feet of high quality meeting space. The guest rooms are expected to offer two-line telephones, Internet access and quality linens and bath amenities.
- **Management-** Competent and effective management is assumed for the subject hotel to insure effective day-to-day operations and overall profitability.
- **Marketing-** PKF assumes competent and effective marketing will be used to promote the hotel and strong group marketing, in conjunction with the convention center.

### **MARKET PENETRATION**

The following paragraphs present the rationale used to estimate the penetration of the proposed 1,500-room hotel by market segment, and the table following these paragraphs illustrates the projected penetration of the proposed hotel. Based on the market mix of other hotels analyzed, PKF derived the market penetration and resulting market mix for the subject hotel.

#### **Convention/Group Penetration**

The primary determinants of group penetration for the property are as follows:

- Location adjacent to the Henry B. Gonzalez Convention Center
- Designation as the Convention Center Headquarters Hotel
- Room count and meeting space offerings
- A stated orientation in marketing for group business

Based on these factors, among others, we estimate group penetration at 120% of fair market share.

**Tourist/Leisure Penetration**

Key determinants of Tourist/leisure penetration are as follows:

- Easy access to the areas tourist attractions
- Primary orientation to the convention/group segment
- Relatively aggressive pricing versus lesser quality/older competitors and area limited service hotels

Based primarily upon these factors, we anticipate a leisure penetration of 50% of fair market share.

**Individual Business Traveler Penetration**

Key determinants of individual business traveler (IBT) penetration are as follows:

- Location in the San Antonio CBD
- Primary orientation to the convention/group segment
- Market as a convention center headquarter hotel, discouraging IBT demand

Based on these factors, among others, we estimate IBT penetration at 80% of fair market share.

**ESTIMATED MARKET SHARE AND OCCUPANCY LEVELS**

The following table presents the projected penetration rates that the proposed hotel can achieve from opening in 2007 to stabilization in 2009.



Estimated Market Share and Occupancy Levels Proposed 1,500-Room Convention Center Hotel			
Demand Segment	2007	2008	2009
Available Room Nights - Market	3,201,415	3,201,415	3,201,415
Available Room Nights - Proposed Hotel	547,500	547,500	547,500
Fair Share	17.1%	17.1%	17.1%
<b>Convention/Group</b>			
Estimated Market Demand	1,646,600	1,663,000	1,679,700
Fair Share	281,600	284,400	287,200
Penetration Rate	120%	120%	120%
Captured Room Nights	337,900	341,300	344,600
Market Mix	81.2%	81.0%	80.7%
<b>Tourist/Leisure</b>			
Estimated Market Demand	529,900	535,300	540,600
Fair Share	90,600	91,500	92,400
Penetration Rate	50%	50%	50%
Captured Room Nights	45,300	45,800	46,200
Market Mix	10.9%	10.9%	10.8%
<b>IBT</b>			
Estimated Market Demand	246,200	248,600	251,100
Fair Share	42,100	42,500	42,900
Penetration Rate	80%	80%	80%
Captured Room Nights	33,700	34,000	34,300
Market Mix	8.1%	8.1%	8.0%
<b>Overall</b>			
Estimated Market Demand	2,422,700	2,446,900	2,471,400
Fair Share	414,300	418,400	422,600
Penetration Rate	101%	101%	101%
Captured Room Nights	416,900	421,100	425,100
Market Mix	100.0%	100.0%	100.0%
<b>Estimated Occupancy</b>	76%	77%	78%
Note: numbers may not total due to rounding			
Source: PKF Consulting			

The foregoing estimates of market penetration by segment yield the above occupancies for the subject hotel.

### Stabilized Occupancy Level

The subject hotel is anticipated to achieve 78% occupancy in its third year of operation, 2009. When we speak of a stabilized occupancy of 78% it does not mean the property will achieve 78% occupancy from year three on, but that the central tendency will be around the 78% parameter.

**Estimated Market Mix**

The subject hotel's market mix in 2009, the year of stabilization, is as follows:

<b>Subject Hotel's Estimated Market Mix 2009 Proposed 1,500-Room Convention Hotel</b>		
<b>Segment</b>	<b>Room Nights</b>	<b>Percent of Total</b>
Convention/Group	344,600	81%
Tourist/Leisure	46,200	11%
IBT	34,200	8%
Total	425,000	100%

**ESTIMATED AVERAGE ROOM RATES**

Published room rates, or "rack" rates, are not the same as the Average Daily Rate (ADR). Hotels generally have a variety of room rates available in addition to the rack rate. Typically, individual business travelers, contract customers, groups and medical or government plans are offered a discounted, or lower than rack, rate. Thus, the ADR has evolved as a common measure of economic performance within the industry. It is calculated by dividing the total room revenue by the number of occupied rooms during a specific period.

Our estimates of ADR for the proposed hotel are based on several quantitative and qualitative factors and assumptions. The more important of these factors are as follows:

- estimated ADR achieved by the competitive properties in 2001 and 2002;
- estimated market segmentation and room occupancy patterns for the proposed hotel;
- the quality of the facility;
- first year of operation beginning January 2007; and
- professional management, marketing and promotion.

As noted previously, ADRs at the primary and secondary competitive sets increased at a compound annual rate of 2.0% from 1997 to 2001. In 2001, the aggregate ADR for the primary competitive set was \$147.80. The subject hotel will compete most directly with the primary competitive set, and more specifically, the mid to upper end of the primary competitive set rate tier. Based on this, PKF has estimated future room rates for the subject hotel as follows:

Subject ADR Projections Proposed 1,500-Room Convention Hotel		
Year	Constant 2002	Stated-Year*
2007	\$154.00	\$179.00
2008	\$154.00	\$184.00
2009	\$154.00	\$189.00

Rounded to the nearest dollar

### UNDERLYING INFLATION ASSUMPTION

An integral part of this analysis is the assumption as to the future expectancy of general inflation, and the resulting impact on revenues and operating expenses. Once this assumption has been established, the impact of real rate increases, or escalations which are not expected to keep pace with inflation can be addressed on an individual basis.

Because of the cyclical nature of business trends, we believe that the longer-term historical trends are most appropriate. In general, hotels tend to adapt in response to changes in costs by raising room rates. It should be noted that economists differ in their estimates of inflationary pressure in the foreseeable future, with many predicting continuing annual increases from 2.0% to above 5.0%. While the higher rates could be maintained in the short term, we feel that a longer-term perspective is appropriate, that would encompass both peaks and dips in inflationary pressures. Considering this, we have utilized an inflation rate of 3% to account for economic recovery from the recession and the impacts of September 11, 2001.



## VIII – ESTIMATED ANNUAL OPERATING RESULTS



## BASIS OF ESTIMATIONS

On the basis of our evaluation of market findings relative to the indicated existing and potential demand for the proposed 1,500-room convention center headquarter hotel, PKF Consulting has prepared schedules of estimated operating results which we believe could be generated by the operation of a facility of the type and caliber described.

### Full-Service/Convention Center Hotel Comparables

In estimating the future operating results, we analyzed the 2001 historical operating statements of five comparable full-service convention center hotels. We have not identified them by name and location, in order to protect the confidentiality of our sample. With the subject's estimated stabilized occupancy of 78% and average daily rate of \$154.00 (in 2002 dollars), its resulting RevPAR is estimated to be \$120.12. The comparable properties represented on average 1,545 rooms per day, an average daily rate of \$172.12 and an occupancy level of 69.2%, resulting in a RevPAR of \$119.11.

## ESTIMATED DEPARTMENTAL REVENUES AND EXPENSES

### Room Revenues

We have estimated room revenues based on the occupancy and rate projections derived in the previous sections. The following table presents our estimates of ADR, occupancy and rooms department revenues from January 1, 2007 through stabilization, presented in stated year dollars.

Year	Estimated Rooms Revenue		Rooms Revenue
	Average Daily Rate	Annual Occupancy	
2007	\$179.00	73.0%	\$71,543,000
2008	\$184.00	76.0%	\$76,562,000
2009	\$189.00	78.0%	\$80,712,000

### Rooms Department Expense

Expenses in this area include salaries, wages and employee benefits under the rooms department. Other expenses include commissions, contract cleaning, guest transportation, laundry and dry cleaning for the department, linen, operating supplies, reservations expense, uniforms and any other miscellaneous expenses to the rooms department.

Our expense estimates are based on the performance of the comparable hotels presented previously. The full-service convention center hotels in our competitive set show an average of \$42.09 Per Occupied Room (POR) for room expense. We have estimated rooms department expenses for the subject property to be lower at \$40.00 POR of departmental revenues in the subject property's stabilized year of operation.

**Food and Beverage Revenues**

In the stabilized year of operation, the subject's food and beverage revenue equals approximately \$60.75 POR. This compares to an average of \$66.69 and an average of \$63.90 without the high and low in the comparables. Based on the positive impact of convention generated business (public room sales and food revenue), but the negative impact of the attraction of dining on the RiverWalk, we estimated the property to generate at lower amount POR than the comparable properties.

**Food and Beverage Expenses**

Expenses in this area include the cost of food and beverage purchases, payroll, equipment, china, glass and silver, printing, advertising and promotions, cleaning, and miscellaneous expenses. Based on a weighted average of 74.4% of expenses to food and beverage revenues and a 74.0% average after removing the high and low, we estimated this expense to be 70.0% of food and beverage revenues in the stabilized year. We must assume that the subject property will be competently managed and will intend to operate the food and beverage department profitably.

**Telephone Revenues and Expenses**

The full-service convention center comparables indicated an average without the high and low of \$5.56 per occupied room. Based on the recent trend of declining revenue, as people utilize cellular communication, PKF estimated telephone revenues for the subject hotel to be approximately \$5.00 per occupied room.

We estimated telephone expenses at 45.0% of departmental income, as revenues decline costs will increase incrementally. The average for the comparables was 43.5% for 2001.

**Minor Operated Departments**

This category includes revenues and expenses associated primarily with the guest laundry, movie sales, honor bar, parking and miscellaneous sales. It is often difficult to make comparisons for this department, depending on the extent and types of amenities offered, but we expect that the amenities of the comparables are somewhat similar to what the proposed hotel is expected to offer.

Based upon revenue generated by the business center and other services, revenues for this category are projected at \$6.00 POR.

PKF must assume that the department will be properly managed, and therefore we have estimated a MOD expense of 30%. The weighted average for the comparables was 31.3%. It should be noted that comparisons with industry averages or comparable properties are somewhat difficult, since facilities and amenities can vary from property to property. In addition, the extent of emphasis placed on these entities by management as well as whether they are operated as separate facilities, concessions or an extension of the hotel can vary significantly.



**Rental and Other Income (Net)**

This line item includes items such as the rental of retail space and gift shop and expenses. It reflects only the net amount, inclusive of expenses. Again, revenues will vary significantly from property to property. When estimating revenues for this category, we relied on data from comparable properties. The weighted average was \$7,406 generated per day and the subject was estimated to generate \$7,605 per day or \$6.50 POR.

**UNDISTRIBUTED OPERATING EXPENSES**

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses, in accordance with the *Uniform System of Accounts for the Lodging Industry*. These expenses were estimated after reviewing the actual operating statistics for the comparable properties. Salaries and payrolls were estimated separately and calculated as a dollar amount. Other expenses per department were calculated as a percentage of total sales.

**Administrative and General**

This category includes the salary and wages of the General Manager and his/her office staff, cash overages and shortages, credit card commissions, bad debt expense, data processing costs, accounting payroll expense, liability insurance and professional fees.

Based on the comparables, we estimated administrative and general payroll to be \$4,600 per available room, or 7.0% of total revenue for the subject property in the stabilized year.

**Marketing**

Marketing expenses include payroll expenses, as well as advertising and merchandising, marketing fees and commissions, complimentary guests, dues and subscriptions, operating supplies (forms, brochures), postage and telephone expenses directly related to this department, travel agency commissions, travel and entertainment, trade show expenses and civic and community projects. The comparables properties ranged from \$2,049 to \$3,818, with a weighted average of \$2,570, our estimate of marketing expenses was \$2,500 per available room (PAR).

**Property Operation and Maintenance**

Property operation and maintenance is a function of age and usage. This expense is made up of salaries and wages, employee benefits, normal maintenance of the building, electrical and mechanical equipment, engineering, refrigeration, operating supplies, cleaning (curtains, floors, carpets and furniture), waste removal, uniforms and maintenance. Based on the average of \$3,216 per available room (PAR) and the age of the comparables, PKF chose \$2,700 PAR, or 4.1% of total revenue in the subject's stabilized year.

### Utility Costs

Utility costs include electricity, fuel, steam and water. The energy costs for the full -service convention center comparable set averaged 3.5% ratio to total revenue. Based on the age of comparables and energy efficiency of a new property, PKF assumed a slightly lower utility cost ratio of 3.3% in the subject's stabilized year of operation. This equates to \$2,150 PAR in the stabilized year.

### MANAGEMENT FEE AND FIXED CHARGES

#### Management Fees

The base management fee was calculated to be 4.0% of total revenue throughout the projection period.

#### Property Taxes

The comparable properties reported property taxes ranging from \$1,710 to \$6,347 with an average of \$3,540 per available room. We also analyzed the 2001 tax bills of three San Antonio hotels that are in the competitive set. These properties paid taxes of \$1,500 to \$2,600 per available room in 2001. The following table illustrates the 2001 effective tax rate per \$100 of value.

2001 Effective Tax Rate		
Tax Code	Type	Tax Rate Per \$100 Value
8	Flood	0.016100
9	Alamo Community College	0.104600
10	Hospital District	0.243869
11	Bexar County	0.320756
21	City of San Antonio	0.578540
57	San Antonio ISD	1.722000
<b>Total</b>		<b>2.985865</b>
Source: Bexar County Tax Office		

PKF has estimated the total development cost of the proposed 1,500-room hotel to be approximately \$320,000,000 or \$213,000 per room. Based on the estimated development cost and the above total 2001 tax rate, the implied property taxes are \$6,370 per guest room. This is substantially higher than the taxes paid by the Marriott Rivercenter, the most comparable hotel. It is typical for hotels to have an assessed value less than the value of the total asset as the business portion of the going concern is not taxed as real estate. Accordingly, PKF has estimated taxes to equal \$3,500 per available room.

#### Property Insurance

The cost of insuring the hotel building and contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage or any other cause should be charged to this account. It is sometimes difficult to estimate this expense. With escalating premiums, many large companies have decided to become self-insured. Other



ways to lower costs include raising deductibles and covering multiple properties under a blanket policy. Due to the recent upward trend in insurance costs, we estimated insurance expenses to be \$500 PAR. The comparable properties had an average insurance expense equivalent to \$409 per available room.

**Reserve for Capital Replacement**

A reserve for capital replacement, also known as the FF&E reserve, has been included for the replacement of furniture, fixtures and equipment (FF& E). Because the property is new and is not expected to require any capital expenditures in its initial years, this reserve has been tiered, at 1% of total revenues in the first year, 2% in the second year, 3% in the third year, and 4% in the fourth year and thereafter.

**Cash Flow Before Debt Service**

Before deducting a reserve for replacement, the estimated net operating income as a percentage of total revenues in the stabilized year of operation is 34.6%. The range indicated by the comparable full-service convention center properties was between 25.8% to 41.2 % with an average of 33.0%.

Based on this range, the estimated operating potential of the subject property appears reasonable. After deducting a reserve for replacement, the cash flow before debt service equates to 30.6% of total revenues in (2009) the stabilized year of occupancy.

**ESTIMATED FUTURE OPERATING PERFORMANCE**

The following charts reflect the estimate of future operating performance of the subject. The two charts are cash flows presented in stated year (inflated) dollars.



# ESTIMATED ANNUAL OPERATING RESULTS

VIII-6

## San Antonio Convention Center Hotel Projected Operating Results Calendar Years

Number of Units:	1,500
Number of Annual Rooms Available:	547,500
Number of Rooms Occupied:	399,680
Annual Occupancy:	73.0%
Average Daily Rate:	\$179.00
Revenue Per Available Room:	\$130.67

Revenues	2007	2008	2009	2010	2011
Rooms	\$71,543,000	\$76,562,000	\$80,712,000	\$83,275,000	\$85,837,000
Food & Beverage	23,167,000	24,842,000	26,261,000	27,049,000	27,860,000
Beverage	4,981,000	5,341,000	5,646,000	5,815,000	5,990,000
Telecommunications	2,317,000	2,484,000	2,626,000	2,705,000	2,786,000
Other Operated Departments	2,780,000	2,981,000	3,151,000	3,246,000	3,343,000
Rentals and Other Income	3,012,000	3,229,000	3,414,000	3,516,000	3,622,000
Total Revenues	107,800,000	115,439,000	121,810,000	125,606,000	129,438,000

Departmental Expenses	2007	2008	2009	2010	2011
Rooms	19,168,000	20,135,000	21,009,000	21,639,000	22,288,000
Food & Beverage	20,243,000	21,351,000	22,335,000	23,005,000	23,695,000
Telecommunications	1,043,000	1,118,000	1,182,000	1,217,000	1,254,000
Other Operated Departments	834,000	894,000	945,000	974,000	1,003,000
Total Departmental Expenses	41,288,000	43,498,000	45,471,000	46,835,000	48,240,000

Departmental Profit	66,512,000	71,941,000	76,339,000	78,771,000	81,198,000
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Undistributed Expenses	2007	2008	2009	2010	2011
Administrative & General	7,999,000	8,239,000	8,486,000	8,741,000	9,003,000
Marketing	4,347,000	4,478,000	4,612,000	4,750,000	4,893,000
Property Operation and Maintenance	4,695,000	4,836,000	4,981,000	5,130,000	5,284,000
Utility Costs	3,739,000	3,851,000	3,966,000	4,085,000	4,208,000
Total Undistributed Operating Expenses	20,780,000	21,404,000	22,045,000	22,706,000	23,388,000

Gross Operating Profit	45,732,000	50,537,000	54,294,000	56,065,000	57,810,000
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Base Management Fee	4,312,000	4,618,000	4,872,000	5,024,000	5,178,000
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Fixed Expenses	2007	2008	2009	2010	2011
Property Taxes	6,086,000	6,269,000	6,457,000	6,651,000	6,850,000
Insurance	869,000	896,000	922,000	950,000	979,000
Total Fixed Expenses	6,955,000	7,165,000	7,379,000	7,601,000	7,829,000

Net Operating Income	34,465,000	38,754,000	42,043,000	43,440,000	44,803,000
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FF&E Reserve	1,078,000	2,309,000	3,654,000	5,024,000	5,178,000
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Net Operating Income After Reserve	\$33,387,000	\$36,445,000	\$38,389,000	\$38,416,000	\$39,625,000
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Source: PKF Consulting	Full Year of Operation				
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Full Year of Operation

Source: PKF Consulting

# ESTIMATED ANNUAL OPERATING RESULTS

VIII-7

## San Antonio Convention Center Hotel Projected Operating Results Calendar Years

2012		2013		2014		2015		2016	
Number of Units:		1,500		1,500		1,500		1,500	
Number of Annual Rooms Available:		547,500		547,500		547,500		547,500	
Number of Rooms Occupied:		427,050		427,050		427,050		427,050	
Annual Occupancy:		78.0%		78.0%		78.0%		78.0%	
Average Daily Rate:		\$207.00		\$213.00		\$226.00		\$233.00	
Revenue Per Available Room:		\$161.46		\$166.14		\$176.28		\$181.74	
Amount		Ratio		Ratio		Ratio		Ratio	
Revenues		66.3%		66.3%		66.3%		66.3%	
Rooms		21.5%		21.5%		21.5%		21.5%	
Food & Beverage		4.6%		4.6%		4.6%		4.6%	
Beverage		2.2%		2.2%		2.2%		2.2%	
Telecommunications		2.6%		2.6%		2.6%		2.6%	
Other Operated Departments		2.8%		2.8%		2.8%		2.8%	
Rentals and Other Income		100.0%		100.0%		100.0%		100.0%	
Total Revenues		\$88,399,000		\$90,962,000		\$96,513,000		\$99,503,000	
Rooms		28,696,000		29,557,000		31,357,000		32,298,000	
Food & Beverage		6,170,000		6,355,000		6,742,000		6,944,000	
Beverage		2,870,000		2,956,000		3,136,000		3,230,000	
Telecommunications		3,444,000		3,547,000		3,763,000		3,876,000	
Other Operated Departments		3,730,000		3,842,000		4,076,000		4,199,000	
Rentals and Other Income		133,303,000		137,219,000		145,587,000		150,050,000	
Total Revenues		100.0%		100.0%		100.0%		100.0%	
Departmental Expenses		26.0%		26.0%		26.0%		26.0%	
Rooms		70.0%		70.0%		70.0%		70.0%	
Food & Beverage		45.0%		45.0%		45.0%		45.0%	
Telecommunications		30.0%		30.0%		30.0%		30.0%	
Other Operated Departments		37.3%		37.3%		37.3%		37.3%	
Total Departmental Expenses		49,667,000		51,177,000		54,294,000		55,923,000	
Departmental Profit		83,622,000		86,042,000		91,293,000		94,127,000	
Departmental Profit		62.7%		62.8%		62.7%		62.7%	
Undistributed Expenses		7.0%		7.0%		7.0%		7.0%	
Administrative & General		3.8%		3.8%		3.8%		3.8%	
Marketing		4.1%		4.1%		4.1%		4.1%	
Property Operation and Maintenance		3.3%		3.3%		3.3%		3.3%	
Utility Costs		18.1%		18.1%		18.1%		18.1%	
Total Undistributed Operating Expenses		9,273,000		9,551,000		10,133,000		10,437,000	
Gross Operating Profit		59,532,000		61,230,000		64,969,000		67,014,000	
Gross Operating Profit		44.7%		44.6%		44.6%		44.7%	
Base Management Fee		5,332,000		5,489,000		5,823,000		6,002,000	
Base Management Fee		4.0%		4.0%		4.0%		4.0%	
Fixed Expenses		7,056,000		7,267,000		7,710,000		7,941,000	
Property Taxes		1,008,000		1,038,000		1,101,000		1,134,000	
Insurance		8,064,000		8,305,000		8,811,000		9,075,000	
Total Fixed Expenses		46,136,000		47,436,000		50,335,000		51,937,000	
Net Operating Income		5,332,000		5,489,000		5,823,000		6,002,000	
FF&E Reserve		\$40,804,000		\$41,947,000		\$44,512,000		\$45,935,000	
Net Operating Income After Reserve		30.6%		30.6%		30.6%		30.6%	

Source: PKF Consulting

## **ADDENDA**

Addendum A	Statement of Assumptions and Limiting Conditions
Addendum B	Certification
Addendum C	Photos of Primary Competitive Hotels



**ADDENDUM A**

**STATEMENT OF ASSUMPTIONS  
AND LIMITING CONDITIONS**



## STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

*The following Standard Conditions apply to real estate consulting assignments by PKF Consulting and will be attached to the report:*

Economic and Social Trends - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical, or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

Information Furnished by Others - In preparing the report, the appraiser was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Title - No opinion as to the title of the subject property is rendered. Data related to ownership and legal description was obtained from the attached title report records and is considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is evaluated assuming it to be under responsible ownership and competent management.

Hidden Conditions - The consultant assumes no responsibility for hidden or unapparent conditions of the property, subsoil, ground water or structures that render the subject more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Hazardous Materials - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property or improvements thereon, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Zoning and Land Use - Unless otherwise stated, the subject property is evaluated assuming it to be in full compliance with all applicable zoning and land use regulations and restrictions.

Licenses and Permits - Unless otherwise stated, the property is evaluated assuming that all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the analysis contained in this report is based.

Engineering Survey - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

Maps, Plats and Exhibits - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

Legal Matters - No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

## STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS (Continued - Page 2)

Right of Publication - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of PKF Consulting, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

Testimony in Court - Testimony or attendance in court or at any other hearing is not required by reason of rendering this report, unless such arrangements are made a reasonable time in advance of said hearing. Further, unless otherwise indicated, separate arrangements shall be made concerning compensation for the consultant's time to prepare for and attend any such hearing.

Income Data Provided by Third Party - Income and expense data related to the property being appraised was provided by the client and is assumed, but not warranted, to be accurate.

Asbestos - The consultant is not aware of the existence of asbestos in any improvements on the subject property. However, the consultant is not trained to discover the presence of asbestos and assumes no responsibility should asbestos be found in or at the subject property. For the purposes of this report, the consultant assumes the subject property is free of asbestos and that the subject property meets all federal, state and local laws regarding asbestos abatement.

Archaeological Significance - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archaeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archaeological significance.

Definitions and Assumptions - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

Dissemination of Material - Neither all nor any part of the contents of this report (including the identity of the consultant or PKF Consulting) shall be disseminated to the general public through advertising or sales media, public relations media, news media or other public means of communication without the prior written consent and approval of PKF Consulting.

Distribution and Liability to Third Parties - The party for whom this appraisal report was prepared may distribute copies of this report only in its entirety to such third parties as may be selected by the party for whom this report was prepared; however, portions of this report shall not be given to third parties without the written consent of PKF Consulting. Liability to third parties will not be accepted.

Use in Offering Materials - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation may not be reproduced or references made to the report or to PKF Consulting in any sales offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

Limits of Liability - PKF Consulting cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement.



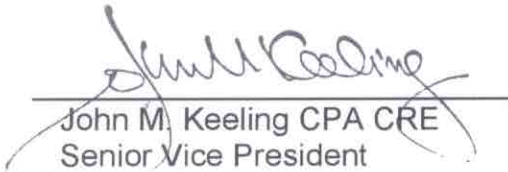
**ADDENDUM B**  
**CERTIFICATION**



## CERTIFICATION

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and our personal, unbiased professional analyses, opinions and conclusions.
- We have no present or prospective interest in the project that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- No one provided significant professional assistance to the persons signing this report except as sourced within the body of this report.
- All the undersigned made personal inspections of the property that is the subject of this report.

  
John M. Keeling CPA CRE  
Senior Vice President

  
Kyle Bowman  
Consultant

**ADDENDUM C**

**PHOTOS OF PRIMARY COMPETITIVE HOTELS**





## COMPETITIVE SUPPLY

### San Antonio Marriott Rivercenter

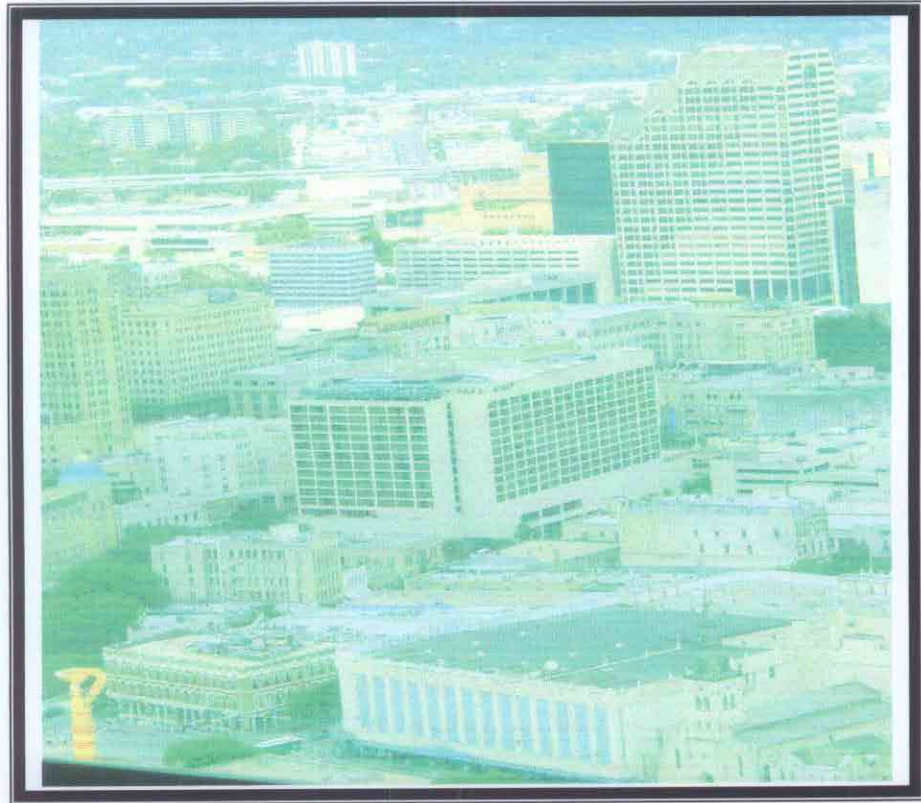


### San Antonio Marriott Riverwalk



## COMPETITIVE SUPPLY

### Hyatt Regency San Antonio



### Hilton Palacio del Rio



## COMPETITIVE SUPPLY

### The Westin Riverwalk



### The Adam's Mark San Antonio

